SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATION

Appointment of Auditor

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

A district board of education 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 districts engage only licensed public school accountants who have had a peer review performed in accordance with *Government Auditing Standards, (Yellow Book)* and that districts obtain a copy of the audit firm's peer review and letter of comment. The board of education 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 Revisi*on *(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/ybk01.htm. 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. School board business 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 board of education, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the board of education.

1. General Fund (including Fund 15 for district required to use school-based budgeting)
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds
5. Permanent Funds
6. Enterprise Funds and Internal Service Funds
7. Private Purpose Trust and Agency Funds
8. 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 district'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 school district. A sample CAFR is available on the website http://www.nj.gov/education/finance/fp/cafr/. Sample schedules that are specific to districts required to use school-based budgeting and instructions for preparing those schedules are also available on this CAFR website.

Responsibility for the completion of the Audit Summary Worksheet (Audsum) diskette rests with the auditor. The school district is responsible for the transmission of Audsum to the DOE. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the diskette and signing off on the transmittal letter as to the accuracy of the information. Signatures of both the auditor and School Board Secretary/Business Administrator are required.

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 district. See Section II-SA for required submission of reports.

Education Jobs Funds (Ed Jobs) were paid to NJ districts on a reimbursement basis after a cash management report (printable) was submitted by the district to the NJ DOE. NJ districts were instructed to record Ed Jobs activity in fund 18 of the general fund (see Question C-6 of the FAQ). A "Fund 18 Combining Schedule" with unallowable accounts blocked out in the fund 18 column is available at the cash management website: https://homeroom2.state.nj.us/edjobs.htm. Additional guidance, including a link to district allocations, FAQ and the federal website can be found on this website: http://www.nj.gov/education/finance/jobs. The federal OMB 133 Compliance Supplement includes a section on Education Jobs and can be found in the Education chapter at this website: http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2011

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 district 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."

Districts 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. Districts 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, effected 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 education and must be followed up with a corrective action plan prepared by the board. The increased understanding of the audited district'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.

School District Fiscal Accountability Act (*N.J.S.A.* 18A:7A-54 et seq.)
Conditions for the Receipt of State Aid (*N.J.A.C.* 6A:23A 6.1 et seq.)

N.J.S.A. 18A:7A-54 et seq. is cited as the "School District Fiscal Accountability Act" and defines that boards of education and administration are responsible for developing internal controls, policies, and procedures and for maintaining a strong internal control environment. District auditors should be aware of the rules and regulations and consider the risk of noncompliance when developing and implementing procedures to test internal controls and detailed tests of transactions.

N.J.A.C. 6A:23A-6.1 et seq. defines the conditions for the receipt of state aid and requires districts to document the performance of certain operational efficiency tests:

- Examine, no less than once every three years, all available group options for every insurance policy held by the district, including any self insurance plan administered by the New Jersey School Boards Association Insurance Group on behalf of districts, and participate in the most cost effective plans. (*N.J.A.C.* 6A:23A-6.1(b)1)

- Take steps to maximize participation in the federal Universal Service Program (E-rate) and the ACT telecommunications program offered through the New Jersey Association of School Business Officials. (*N.J.A.C.* 6A:23A-6.1(b)2)
- Participate in the Alliance for Competitive Energy Services (ACES) energy program offered through the NJ School Boards Association unless the district can demonstrate that it receives the goods or services at a cost less than or equal to the cost achieved by participants in the program, (*N.J.A.C.* 6A:23A-6.1(b)3)
- Take appropriate steps to maximize the district's participation in the Special Education Medicaid Initiative (SEMI) Program, pursuant to *N.J.A.C.* 6A:23A-5.3; *N.J.A.C.* 6A:23A-6.1(b)4) and
- Refinance all outstanding debt for which a three percent net present value savings threshold is achievable. (*N.J.A.C.* 6A:23A-6.1(b)5)

N.J.A.C. 6A:23A-6.4 requires that the district's internal control policies promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies and comply with law and regulation as detailed at *N.J.A.C.* 6A:23A-6.5 through 6.13. A brief overview of the control requirements and policies follows:

- Standard operating procedures (SOPs) for business functions. Implementation date December 31, 2009. (*N.J.A.C.* 6A:23A-6.6)
- Financial and human resource management systems (larger districts); access controls. Implementation complete by the 2010-11 school year. (*N.J.A.C.* 6A:23A-6.7)
- Personnel tracking and accounting system (PCR). Implementation fully complete by December 31, 2009. (*N.J.A.C.* 6A:23A-6.8)
- Facilities maintenance and repair scheduling and accounting work order system. Districts with three or more district buildings were to fully implement an automated work order system by July 1, 2010 (*N.J.A.C.* 6A:23A-6.9)
- Approval of amounts paid in excess of approved purchase orders; board policy (*N.J.A.C.* 6A:23A-6.10)
- Vehicle tracking, maintenance and accounting; board policy (*N.J.A.C.* 6A:23A-6.11)
- District vehicle assignment and use policy (*N.J.A.C.* 6A:23A-6.12)
- Board travel policy (*N.J.A.C.* 6A:23A-6.13)

Other audit considerations include, but are not limited to:

- *N.J.S.A.* 18A:7A-55, effective April 2006, provides for the appointment of a state monitor in schools that meet specific circumstances and established the oversight duties of such monitors. Circumstances include an adverse or qualified audit opinion, repeat audit findings, material weaknesses and late submission of the audit. Communication of such issues in the audit reports is essential for the department to implement this statute.
- *N.J.S.A.* 18A:7A-57, effective April 2006, requires a forensic audit by the Office of the State Auditor if a district has a year-end general fund deficit and also meets one of the criteria for a state monitor. Communication and proper reporting by auditors is necessary for the department to implement this statute.
- *N.J.S.A.* 18A:17-14.4, effective March 2007, requires the school business administrator, or any other person designated by the board of education, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and 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. March 15, 2008 was the first time the E-CERT1 was required (for calendar year 2007). E-CERT1 is available from Treasury at: http://www.state.nj.us/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf
- *N.J.S.A.* 18A:23-2.1, effective March 2007, requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies with federal and

State laws and regulations regarding the compensation reported. Auditors must include testing of payroll. See the State Aid/Compliance Supplement for suggested audit procedures and links for payroll tax related guidance.

- *N.J.S.A.* 18A:7F-41, effective April 2007, provides for two new reserves of fund balance, the current expense emergency reserve and the debt service reserve account. This section also expanded the authority at year end to transfer funds into a new or existing maintenance or capital reserve account. Regulations on the reserve accounts provide that such transfer resolution be adopted no earlier than June 1 and no later than June 30 of the respective school year (*N.J.A.C.* 6A:23A-14.1 et seq.). The reserves are to be held in accordance with GAAP and subject to annual audit. Interest income or capital gains become part of the reserve. See Section II-10 for further discussion of capital reserve, maintenance reserve, and current expense emergency reserve. See Section II—40 for further discussion of the debt service reserve.
- *N.J.A.C.* 6A:23A-5.2(a)(3) requires districts with legal costs that exceed 130 percent of the statewide average per pupil amount to establish specific internal control procedures for the reduction of costs or to provide evidence that such procedures would not result in a reduction of costs. Districts that have audited 6/30/10 legal costs that exceed 130% of the statewide average as published in the *2011 Taxpayer Guide to Education Spending* for their operating type, should have a resolution or memo to recognize this and to implement for 2011-12 the controls as provided in *N.J.A.C.* 6A:23A-5.2(a)(3) at the earliest board of education meeting subsequent to the 6/30/11 fiscal year. The legal costs indicator is available at this website - http://www.nj.gov/education/guide/2011/ind08a.shtml

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 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 school districts 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 school district 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 education of such school district."

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 upon which taxes were based and details of the public hearing on the budget.

c. Details of the annual organization meeting of the board, including the results of the election.

d. Lists of claims approved for payment by the board.

e. Summary of monthly financial statements of the secretary and the treasurer (if the district 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. Requests for Local Property Taxes.

j. Required Board of Education Policies:
   - Travel and expense reimbursement
   - Public Relations and Professional Services
   - SEMI Reimbursement
   - Nepotism
   - Contributions and Contracts Awards
   - Policy on Exceeding Purchase Order Amounts
   - Vehicle Tracking and Use

Minute Records

The proceedings of the meeting of the board of education or board of school estimate 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 education, particularly with respect to the proceedings of the annual or special district meetings (elections) in Type II districts, the submission of monthly financial reports, the approval of claims, request for taxes, 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

ASSA &SEMI & DRTRS

APPLICATION FOR STATE SCHOOL AID (ASSA)

Overview

Auditors are required to perform detailed testing procedures relating to the ASSA enrollment data for the following categories:

1) On-roll full and shared students (regular and special ed).
2) Private school for the disabled students.
3) Low income enrollment.
4) Low Income Limited English Proficient (LEP) students (kindergarten through 12).
5) Limited English Proficient (LEP) students (not low income- kindergarten through 12).

The Schedule of Audited Enrollments is included in the Auditor's Management Report as a supplementary schedule and summarizes the results of testing the ASSA and the District Report of Transported Resident Students (DRTRS). Refer to Section III – Chapter 4 for an example of this schedule and comment. A statement regarding the audit procedures performed on ASSA is also required in the Auditor's Management Report including any items of noncompliance or negative comments along with the appropriate recommendation.

The Office of School Funding used the October 15, 2010 ASSA data in the calculation of 2011-12 state aid, and for other purposes such as calculation of School Choice Aid, and federal entitlement programs. Auditors should obtain a printout of the February 23, 2011 DOE ASSA Summary prepared by the department and available through the district's individual account on the DOE website. This Summary reflects changes made prior to the final calculation of 2011-12 state aid.

Charter school students were to be considered enrolled in their resident district and were to be counted as if they attended their home school. These students were to be reported in accordance with the 2011-2012 Application for State School Aid Instructions, page 29.

Choice program students were to be reported by the choice district on the ASSA. Choice districts in the Interdistrict Public School Choice Program were to enter data for those students in accordance with the 2011-2012 Application for State School Aid Instructions, pages 30 to 32.

The School Funding Reform Act (SFRA) calculations for state aid required changes to the ASSA that were first effective for October 15, 2008. Special education students are reported as either elementary, middle school, or high school students according to their grade level (graded - Resource Center) or age (un-graded – self-contained). Refer to page I-3.3 of this Audit Program for grade level and age conversion charts. Grade level or age classification must be verified as part of your on roll – full/shared and private school testing.

The ASSA data collection includes a screen for resident districts (other than a regional or consolidated) to enter detailed resident enrollment data for the district. The number of regular education and special education LEP students that qualify for free lunch are entered separately from those eligible for reduced lunch. LEP students who are <u>not</u> low income are entered in a separate column (ASSA instructions on page 53). The ASSA Summary printout includes columns for Resident LEP Low Income and Resident

LEP Not Low Income. Auditors should sample both categories and follow the directions in this chapter for testing low income meal eligibility as well as LEP eligibility. For LEP students classified as not low income eligible, the absence of a valid "Application for Free and Reduced Price Meals and Free Milk" is deemed to support the not low income eligible classification. These students will usually appear on school nutrition program Master Eligibility Lists as "Paid" or "Denied" status.

School districts must complete a set of workpapers which document the compilation of register data for the ASSA student count and provide an audit trail for the auditor to use as a basis for testing. School districts must also prepare written internal procedures that provide a description of the October 15, 2010 count process. The procedures should describe how the count was taken, who was responsible for compiling the data and submitting the ASSA data, and the various personnel assigned responsibilities for collection of the data. The workpapers, original supporting documentation and internal procedures must be maintained on file for a period of seven years. The workpapers have been modified to eliminate data no longer collected pertaining to special education tiers, related services, and specific learning disabled as well as the inclusion of new data to be collected for SFRA purposes.

Determining Sample Size

The following table should be used when determining the sample size for testing each category: the on roll – full/shared, private schools, low- income, and bilingual education categories. The table should also be used when determining the sample size when testing the DRTRS.

TOTAL REPORTED	SAMPLE SIZE EXPRESSED AS %	TOTAL REPORTED	SAMPLE SIZE EXPRESSED AS NO.
Up to 50	86%	401 - 650	197
51 – 100	76%	651 - 950	232
101 – 150	68%	951 - 1,250	254
151 – 200	62%	1,251 - 1,500	264
201 – 250	57%	1,501 - 1,750	272
251 – 300	52%	1,751 - 1,950	279
301 – 400	48%	1,951 - 2,400	284
		2,401 - 2,900	291
		2,901 - 3,400	295
		3,401 - 3,900	299
		3,901 - 4,900	303
		4,901 - 9,500	312
		9,501 - 17,000	318
		17,001 - 48,000	322
		48,001 - 500,000	325

This table is based on a commonly used table which will provide a confidence level of 99 percent with a precision of ± 2 percent. The table has been condensed for this purpose and does not reflect the numerous sample sizes required for populations up to 500,000. The development of population ranges and averaging of sample sizes for such ranges will have a marginal but acceptable impact on the confidence level and precision. Sample sizes for populations up to 400 are expressed as a percentage (%) of the actual population. Sample sizes over 400 are expressed as a number (No.) for a population range.

Sample Selection and Test Procedures

1. ***On Roll - Full/Shared Including Home Instruction*** -- At a minimum, at least one register from each enrollment category must be tested to verify that the number of students enrolled on October 15, 2010 agrees with the associated number reflected on the district's workpapers and on the ASSA. All Home

Instruction students must be entered by name in the school register with attendance code "7." These students are included in the on-roll count rather than as a separate category on the ASSA. On Roll counts must also include 3-year-old and 4-year-old preschool students (not preschool disabled) from district school registers in the appropriate ASSA lines. If, after reviewing one register per category, the total sample size is less than that reflected on the table for the total population, additional registers must be tested until the appropriate sample size is achieved.

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 district be present to ensure compliance with the aforementioned provision. Additionally, the district 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:

Grade Level (as of 10/15/10)	School
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:

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

2. ***Private Schools*** -- Obtain the workpapers prepared by the district and verify that for each student listed there is a tuition contract with an approved Private School for the Disabled on file, which was in effect on October 15, 2010. Based on the total contracts the auditor should use the table to determine an appropriate sample size. The sample should be tested against private school tuition bills for October in order to determine that these pupils were in fact enrolled and that tuition was paid. The students will be identified by their initials and each student's number of enrolled days will be listed for the month. The per diem rate must be the same as the rate identified in the private school contract. This count may also include preschool disabled students placed in early childhood programs as per the provisions contained in *N.J.A.C.* 6A:14-4.3(c). An appropriate tuition contract must be on file as well as supporting documentation for the tuition payment. Any unresolved differences must be identified as an audit exception. Special education students sent to private schools are no longer reported by tier. However, each student placement must be supported by an appropriate IEP. Verify private school enrollment shown on the Schedule of Audited Enrollments reflects only those pupils

with a contract, adjusted for those pupils in the sample who were not properly reflected on the October bill.

> 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 district be present to ensure compliance with the aforementioned provision. Additionally, the district may require the auditor to sign the pupil access record to document the disclosure of this information.

3. ***Low-Income Enrollment on Roll – Full Time and Shared Time*** -- Obtain the low-income workpapers (by school, by grade) prepared by the district and reconcile total low-income eligible students listed to the low-income eligible students reported on the ASSA. Based on the total low-income eligible students listed on the workpapers the auditor should use the table to determine an appropriate sample size. To provide adequate coverage of the low-income eligibility concentrations the sample must include pupils from all schools tested for on roll.

Low-income eligible students are resident and nonresident students eligible for free or reduced price meals or free milk, and are part of the districts' 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 15, 2010).

For the sample selected, verify that there are valid "Applications for Free and Reduced Price Meals and Free Milk" on file to support the number of pupils reported. A valid application is one that contains all required information and signatures. For those districts that elected direct certification, verify that the pupil is included on the direct certification list maintained by the central office. Trace the applications (or direct certifications) to the registers to ensure that the students were on roll as of the last school day prior to October 16 (October 15, 2010). Only those students eligible for free or reduced price meals or free milk as of the last school day prior to October 16 (October 15, 2010) are low-income students for the purposes of state aid and only those students should be reported as low-income eligible students in the ASSA. Districts which send low-income eligible students to the following programs may include those students as part of their low income count (Low Income Out of District Students), provided that a valid application is on file for the student at the resident district:

- Private schools for the disabled,
- Regional day schools,
- County special services districts,
- Educational services commissions,
- Alternative High School programs,
- Marie H. Katzenbach School for the Deaf,
- A. Harry Moore School and
- State college demonstration schools

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 ASSA, those variances must be reported on the Schedule of Audited Enrollments as well.

4. ***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 district.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students in a district.
- English Language Services (ELS) programs are provided when there are at least 1, but fewer than 10, LEP students in a district.

Program plans for Bilingual, ESL-only and ELS programs are submitted every three years. The current three-year cycle began in July 2008, and will end in 2011. All programs operate from September to June.

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 district as of October 15, 2010 are eligible to be reported in the 2011-12 ASSA:

- 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 by school 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 (Line 58 of the ASSA), 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 15, 2010). LEP students are listed on the ASSA 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.

The auditor should also verify that the LEA submitted a Bilingual, ESL or ELS plan which included year the year ending June 30, 2011 to the department that received approval.

<u>LEP Placement Criteria</u>:
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. Districts may continue to report these students as LEP on the ASSA if other indicators support the decision to continue language assistance program services. Testing of each LEP student reported on the ASSA must be documented as part of ASSA supporting documentation.

<u>2010-11 English Language Proficiency Tests</u>:
- 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 Touchstone Applied Science Associates.
- 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

Districts must use multiple indicators, as specified in code (*N.J.A.C. 6A:15-1.3(b)* 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 -Touchstone Applied Science Associates 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)™ 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. Districts should consider other indicators in making their placement decision.

To exit a 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. Districts 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 ASSA

In addition to the testing of enrollment reported, the public school accountant must also verify that the district maintains written internal procedures which provide a description of the October 15, 2010 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 Application for State School Aid data, and
3) The various personnel assigned responsibilities for collecting the data.

If the district 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.

A memo was distributed to all school districts regarding the necessary records that were required to be maintained to support the data included in the October 15, 2010 ASSA. Copies of the suggested sample formats for supporting workpapers were distributed with the memo. As noted in the memo, the data reported on the ASSA must be clearly documented and should be on file at the district. The memo, instructions, and a Q & A document may be obtained from the website:

http://www.nj.gov/njded/finance/sf/stateaid_app.shtml.

ADDITIONAL PROCEDURES FOR SCHOOL-BASED MEDICAID REIMBURSEMENT PROGRAMS

The State of New Jersey, Department of the Treasury administers two separate and distinct school-based Medicaid reimbursement programs: Special Education Medicaid Initiative (SEMI) and Medicaid Administrative Claiming (MAC). SEMI allows for the recovery of costs associated with the delivery of direct services and evaluations to special education students. MAC allows for the recovery of costs associated with a wide range of activities eligible for administrative claiming.

Under SEMI, related services, evaluation services, and specialized transportation are activities for which a district may submit claims. A student must have an IEP to document needed services. In addition, school districts are required to have all necessary documentation on file for review to support all claims for services performed as indicated in Chapter 4, "Covered Services and Practitioner Qualifications" and Chapter 5, "Service Documentation Requirements" of the SEMI Handbook. The SEMI 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 districts. Effective October 1, 2005, districts 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. A select group of related services (audiology, occupational therapy, speech therapy, physical therapy, nursing and counseling) and evaluations are Medicaid reimbursable when delivered by Medicaid qualified practitioners. See Chapter 5, "Service Documentation Requirements" for the documentation required when using PCG's 3rd party administrator system. The primary contact at PCG is Jessica Rod (609-275-0250, ext 3951, email jrod@pcgus.com) or Bryan Hawkom (800-210-6113, email bhawkom@pcgus.com).

Audit procedures involve testing to determine that documentation is being maintained by school districts. 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 school districts are required to maximize their participation in the Special Education Medicaid Initiative (SEMI). The adopted Accountability Regulations specified in *New Jersey Administrative Code* (N.J.A.C.) 6A:23A-5.3 include programmatic guidelines and standards for local school districts to maximize participation in SEMI.

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

A district may seek a waiver of the requirements to maximize SEMI if it can show that as per the October 15 Special Education Student Count for the previous school year (FYE 6/30/11 refer to October 15, 2009 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 district. This information must be based on reliable evidence and on the projection provided by the NJDOE of the district's eligible students or available SEMI reimbursement for the budget year. Currently districts receive $298.02 for eligible 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 district may seek approval from the Executive County Superintendent to use its own projections of SEMI reimbursement revenue, upon demonstration that the numbers it used in calculating the projections are more accurate than the projections provided by the department. All alternative revenue projection proposals must be submitted to the Executive County Superintendent no less than 45 days prior to the submission of the district's proposed budget.

In accordance with *N.J.A.C.* 6A:23A-5.3(f), each district 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 district's proposed budget submission. Maximum participation of SEMI is defined in the regulations as obtaining 90 percent return rate of parental consent forms for all SEMI eligible students.

More information on SEMI can be found at the following link:
http://www.state.nj.us/treasury/administration/pdf/semi-handbook.pdf

DISTRICT REPORT OF TRANSPORTED RESIDENT STUDENTS (DRTRS)

Overview

Auditors are required to perform detailed testing procedures relating to student transportation as reported on the 2010-11 District Report of Transported Resident Students (DRTRS). The county eligibility summary report (distributed by county offices) is a compilation of district data by district and should agree to the DRTRS Summary Report produced by the DRTRS data collection software at the district. Districts should have a paper copy of the report produced by the software or provide auditors with the ability to view student data on-line using the DRTRS data collection software. The district level data is reported in the four part (A through D) DRTRS Summary Report. The format of the DRTRS report generated at the district was revised in 2004-05 primarily to identify preschool students (Grade PK), vocational school students and nonpublic school students over 20 miles. Part B has been combined with Part A and the line "Public School Students" was broken out into three lines – A-1) Students – Grade PK, A-2) Public School Students Excl. Voc. Students, and A-3) Vocational School Students The following crosswalk to the county DRTRS Eligibility Summary Report should be used by auditors when agreeing the category totals:

- The sum of lines A-1 (include only if the district is a universal or targeted preschool district), A-2, A-3, A-4 and A-5 should agree to the REG PUB Column.
- Line A-6 should agree to the column, TRANS NONPUBLIC
- Line A-7 should agree to the column, AIL.
- The sum of lines A-8, A-9 and A-10 should agree to the column, REG SPEC.
- The sum of lines B-1, B-2, B-3, B-6, B-7, and B-8 should agree to the column, SPEC ED SPEC.
- Line D-1 should agree to the column, TRANS NP 20.1 – 30 MILES.
- Line D-2 should agree to the column, TRANS NP>30 MILES.

- Line D-3 should agree to the column, AIL 20.1-30 MILES.
- Line D-4 should agree to the column, AIL>30 MILES.
-

Sample Size

Use the table in the first part of this chapter to determine the appropriate sample size for the population listed on the county DRTRS report.

Sample Selection and Test Procedures

- Obtain from the district, a county summary (distributed by the county offices) of the 2010-11 DRTRS Eligibility Summary Report produced by the department.
- Auditors should first agree the county DRTRS Eligibility Summary Report to the district DRTRS Summary Report using the above crosswalk.
- If the county summary has lower numbers, inquire of appropriate district personnel as to whether the district has received notification of duplicate students on their DRTRS.
- Any discrepancies should be noted on the ASSA Schedule of Audited Enrollments.
- Review the district's DRTRS Summary Report to determine whether students on hazardous routes were reported (indicated by a "Y" response to the following question, "Does your district provide Non-Mandated transportation to resident students who would be required to walk to and from school along a route designated as a hazardous route by the local school district pursuant to *N.J.S.A* 18A:39-1.5 if transportation were not provided?") If such transportation is provided, determine whether the district has a board of education approved hazardous busing policy. (*N.J.S.A.* 18A:39-1.5)
- Auditors are also required to perform the procedures listed below related to the DRTRS.

Eligible Regular Students/(REG PUB)

Eligible Regular Students (REG PUB, of the county DRTRS report) includes pupils from the District level DRTRS Summary Report under Part A, lines 1, 2, 3, 4 and 5 of the District DRTRS ("Eligible REGULAR"). Please note that regular preschool students, line A-1, would be counted as eligible for aid if the district qualifies for early childhood aid pursuant to *N.J.S.A.* 18A:7F-54 and the student meets the on-roll and remote mileage requirement of 2.1 miles or more.

Verify the on-roll status of students reported on the District Report of Transported Resident Students. In order to verify on roll status as of October 15, 2010:

- Trace the public school students to the school registers;
- Verify that the application form B6T for nonpublic school students reported on the DRTRS is on file and has been received by the district on or before October 15;
- Verify that the application form for transportation for charter school students reported on the DRTRS is on file and has been received by the district on or before October 15;
- Examine the Charter School Application for Transportation Services for proper signature by the Chief School Administrator of the charter school; and
- Trace the charter school students listed on the DRTRS to the listing on the application noted above.

If any errors are noted during the verification of the on roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. The current format includes two lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School mileage Excluding Grade PK. The auditor doesn't need to make two computations when computing average mileage: (one that includes regular pre-kindergarten students and one without those students) since this

information is provided in the revised report. Reconciling differences may be due to Vocational Technical shared time students counted twice, duplication of pupil records.

Eligible Regular Special Education Students (without special transportation needs)/(REG SPEC)

Eligible Regular Special Education Students (without special transportation needs), (REG SPEC, of the county DRTRS report) includes pupils in the district DRTRS Summary Report under Part A, lines 8 through 10 of the district DRTRS report ("Eligible REGULAR STUDENTS"). Please note that regular special education preschool students are counted as eligible for aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more for S1 grade levels (students whose age matches PK through grade 8) or 2.6 miles or more for S2 grade levels (students whose age matches grades 9 through 12) or whose Individualized Education Program (I.E.P.) requires transportation, regardless of whether the district qualifies for early childhood aid pursuant to *N.J.S.A.* 18A:7F-54 or not.

A regular special education student that has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P. that does not include a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P. specifically requires the student to be transported. In order to verify on roll status as of October 15, 2010, trace public school students in this category to the school registers. Private School for the Disabled students on roll status should be verified with a valid tuition contract and October 2010 tuition voucher.

If any errors are noted during the verification of the on-roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. As noted above, the report has two separate lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School Mileage Excluding Grade PK. The auditor doesn't need to perform two computations when computing average mileage: one that includes regular pre-kindergarten students and one without those students since that information is in the report.

Eligible Special Education Students (with special transportation needs)/SPEC ED SPEC NEEDS

Eligible Special Education Students includes all special education students transported outside the district and those with special transportation needs. Column 6, TOTAL SPEC ED SPEC NEEDS of the county DRTRS report) includes pupils in the DRTRS Summary Report under Part B, lines 1,2,3, 6, 7, and 8 of the district DRTRS report ("Eligible SPECIAL EDUCATION STUDENTS with Special Transportation Needs and Out of-District Special Education Students without Special Transportation Needs" section). Please note that a special education pre-kindergarten student are counted as eligible for aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more for S1 grade levels (students whose age matches PK through grade 8) or 2.6 miles or more for S2 grade levels (students whose age matches grades 9 through 12) or whose I.E.P. requires transportation, regardless of whether the district qualifies for early childhood aid pursuant to *N.J.S.A.* 18A:7F-54 or not.

A special education student who has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P. that includes a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P. specifically requires the student to be transported. In order to verify on roll status as of October 15, 2010, trace public school students to the school registers.

Private School for the Disabled students on-roll status should be verified with a valid tuition contract and October 2010 tuition voucher. If any errors are noted during the verification of the on-roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in.

Additional Audit Procedures - Transportation

The following procedures regarding transportation must also be performed:

(1) Verify that invoices for purchases of goods and services are transportation related.
(2) Verify that bid specifications for bus purchases were properly bid and awarded in accordance with N.J.S.A.18A:18A-1 et seq.
(3) Verify that leases for school buses do not exceed ten years (N.J.S.A. 18A:18A-42(f)).
(4) Verify that transportation contracts and renewals are properly prepared and contain all necessary documents and affidavits. A list of the necessary documents can be found in the "PT-1 Student Transportation Documents Checklist" found at http://www.state.nj.us/education/finance/transportation/contracts/1011/
(5) Verify that B7T (Request for Payment of Transportation Aid) forms completed by students' parents or legal guardians are on file for nonpublic school students whose parents or legal guardians received aid-in-lieu of transportation.
(6) Verify that requests for transportation aid vouchers completed by students' parents or legal guardians are on file for charter school students whose parents or legal guardians received aid-in-lieu of transportation.
(7) Review both regular and special needs student transportation expenditures
   - Determine whether expenditures are reasonable and consistent relative to the applicable count on the DRTRS.
   - For the sample expenditures, determine whether the expenditure is supported by a county approved contract.
(8) If the balance in the general ledger account for Contract Services (Other Than Between Home & School) is greater than $17,200, determine whether bids were obtained and a county approved contract was available. (*N.J.S.A.* 18A:39-2 and 39.3 and *N.J.A.C.* 6A:27-9.2)
(9) Reference the Transportation Aid chapter of the *State Aid/Grant Compliance Supplement*.

Required Independent Auditor Testing and Procedures to be Performed on ASSA/DRTRS/EXAID and Chapter 192/193 OFAC Audit Findings

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/or State appropriations; *N.J.S.A.* 18A:4-23. The office performs investigations and many auditing functions, including full scope audits of ASSA, DRTRS, EXAID, and Chapter 192/193 State Aid entitlements. The independent auditor is required to perform follow-up tests and procedures, as necessary, to determine that findings contained in audit reports issued by the OFAC have been properly addressed and resolved. The conclusions drawn from the follow-up tests and procedures performed on OFAC findings by the independent auditor must be summarized in the State Financial Assistance Findings and Questioned Costs (Section III) of the Schedule of Findings and Questioned Costs.

SECTION I – GENERAL COMPLIANCE
CHAPTER 4

BUDGET & TRANSFERS

The Budget

Preparation of the budget is one of the most important functions of the board. After approval by the Board of School Estimate in districts in which the Board of School Estimate fixes and determines the tax levy; or the electorate in districts in which the tax levy is voted upon at the annual school election; or by the municipal governing body or bodies where items were rejected by the electorate; or by the Commissioner, it becomes the legal program of expenditures for the school year. The approved budget should be detailed on budget forms prescribed by the Department of Education.

Check the budget detail on the postings of the budget to the revenue ledger and expenditure ledger against the final approved budget used for tax levy purposes in accordance with:

a. The Board of School Estimate in districts in which that body fixes and determines the tax levy;

b. The electorate in those districts in which the tax levy is voted upon at the annual school election;

c. The municipal governing body or bodies where items were rejected by the electorate;

d. The act of the Commissioner in the event the governing body or bodies of such municipalities fail to certify.

The approved detailed budget must appear in the official minutes as a matter of record.

Pursuant to *N.J.S.A.* 18A:22-44.2, districts are to record the one or more June state aid payments not made until the following school budget year as revenue, for budget purposes only, in the current school budget year accounting records. "Any negative unreserved undesignated fund balance that is a direct result of a delayed State aid payment for the current school budget year which is not made until the following school budget year shall not be considered a violation of any law or regulation and in need corrective action." (See Section I-8 for further details).

Budget Transfers

N.J.S.A. 18A:22-8.2 prohibits transfers from appropriations or surplus accounts for interest and debt redemption charges and items classified as general fund except to other items so classified. Adult education fees are limited to adult education program expenditures and may not be transferred elsewhere.

Districts may not transfer from the general fund to the special revenue fund, except for the budgeted transfer to fund preschool education. If there are program expenditures in excess of a grant budget, the board's contribution to the program should be recorded in the applicable general fund expenditure account. Benefits related to a grant program should be recorded in the special revenue fund due to the statutory requirement to reimburse the state for benefits related to a federal grant (*N.J.S.A.* 18A:66-90).

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A board of education may not approve encumbrances or expenditures that will create deficits in line items. A board of education 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 board of education 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 advertised 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 school board is required pursuant to *N.J.S.A.* 18A:22-8.1.

Line-item transfers from an advertised appropriation account as defined under *N.J.A.C.* 6A:23A-13.3(e) which on a cumulative basis exceed 10 percent of the amount included in the original budget, require Executive County Superintendent approval for. A transfer request is deemed approved after 10 working days of receipt by the county superintendent when no written approval or denial is provided within that timeframe. The burden is on the district to provide supporting documentation of receipt by the county superintendent. *N.J.A.C.* 6A:23A-13.3(f)

Line-item transfers to an advertised appropriation account identified as general administration, school administration, central services and administrative information technology or other support services that, on a cumulative basis, exceed 10 percent of the amount included in the original budget, require county superintendent approval. *N.J.A.C.* 6A:23A-13.3(g))

In addition to the above noted transfers, transfers to capital outlay excluding equipment (for non-referenda projects; all transfers to referenda projects require voter or board of school estimate approval) require approval by the executive county superintendent and may be approved only to supplement a capital project previously approved by the voters or board of school estimate for an "emergent circumstance." *N.J.A.C.* 6A:23A-13.3(h)

N.J.A.C. 6A:23A-13.3(i) state that each district shall maintain a report of current month and year-to-date transfers between advertised general fund appropriation accounts as defined in *N.J.A.C.* 6A:23A-13.3 in a format prescribed by the Commissioner or in a format developed locally and approved by the county superintendent. A transfer worksheet that should be completed monthly and instructions for completing it are available at: http://www.state.nj.us/education/finance/fp/af/transfer/monthly.shtml

Pursuant to *N.J.A.C.* 6A:23A-13.3, departmental approval is required for appropriation of surplus or other unbudgeted or underbudgeted revenue except for specific revenue sources identified in the administrative code (*N.J.A.C.* 6A:23A-13.3(d)). The six specified revenue sources are as follows:

- Exemption granted in the award notice of additional state aid.
- Tuition revenue generated from a district specific program (excludes formal sending/receiving relationships).
- School transportation revenue generated from a district or from a joint or Cooperative Transportation Service (CTS) agency pursuant to *N.J.S.A.* 18A:39-11.
- Restricted miscellaneous local revenue.
- Federal revenue.
- Any revenue amount excluded from the excess surplus calculation in the prebudget year.

Prior to April 1, appropriation of surplus or other unbudgeted or underbudgeted revenue (except for those exempted under *N.J.A.C.* 6A:23A-13.3(d) is not permitted unless by a two-thirds affirmative vote of the authorized membership of the school board petitioning the Commissioner for approval of an "emergent circumstance." The district is required to submit to the department, board certification of an emergent circumstance that cannot be addressed and completed with current appropriations, and a copy of the most current board secretary report.

Between April 1 and June 30, county superintendent approval and two-thirds affirmative vote of the authorized membership of the school board are required for the appropriation of surplus or other unbudgeted or underbudgeted revenue. The district is required to submit to the department, board certification that the appropriation is necessary to achieve the thoroughness standards and a copy of the most current board secretary report. (*N.J.A.C.* 6A:23A-13.3(b))

Transfers from line accounts that include waiver amounts for the 2010-11 budget approved by the Commissioner and expenditures and/or reallocations directed by the Commissioner are prohibited unless approved in writing by the Executive County Superintendent approval (*N.J.A.C.* 6A:23A-13.1).

Surplus generated at the fiscal year-end of the budget year that a waiver has been approved may be deposited into capital reserve, maintenance reserve, or current expense emergency reserve at year end under N.J.S.A. 18A:7F-41 only after a reserve in the amount of the total approved waiver requests has been established. The transfer restrictions will cause any unspent waiver amounts to fall to surplus at year end. When actual audited undesignated general fund balance at the fiscal year–end exceeds the estimated amount reflected in the district's original approved budget (Recap of Balances, line 1670, column 2) a Waiver Offset Reserve must be created up to the amount of the total approved waivers, and designated for tax relief in the next subsequent budget preparation. This reserve at June 30, 2011 must be budgeted in the 2011-12 budget.

Budgeted appropriations are also deemed restricted when associated with a capital outlay waiver (*N.J.A.C.* 6A:23A-12.4) or an additional spending proposal (*N.J.A.C.* 6A:23A-12.13(a)11).

The auditor should determine whether proper approvals were obtained for the appropriation of surplus or other unbudgeted or underbudgeted revenue and if the funds were expended as approved. If not, there should be an audit finding and recommendation.

<u>Restriction on capital outlay transfers (additional spending proposals or Commissioner CAP waivers)</u>
Districts that presented an additional spending proposal to the voters or board of school estimate are subject to the provisions of *N.J.A.C.* 6A:23A-8.5. Districts that included a capital outlay spending Commissioner CAP Waiver are subject to the provisions of *N.J.A.C.* 6A:23A-8.4. The entire capital outlay portion of the budget (including equipment) of districts receiving this adjustment is restricted and funds cannot be transferred between (from/to) capital outlay and current expense. See page II-10.11 of this Audit Program for further guidance in those situations.

<u>Transfers to capital projects fund and transfers of unexpended bond proceeds</u>
When specifically approved by the voters or board of school estimate or the Commissioner, districts 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. Unexpended bond proceeds for pre-EFCFA bonds that are on hand one year or longer, for which there is no new purpose for the unexpended funds, may be transferred to either the general fund or the debt service fund by board resolution. See related discussion on Bond Sales and Capital Projects Fund in Section II – Fund 30.

Transfers to food service fund

In situations where a district 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. Districts 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 diskette for this account. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer.

Transfers to/from Reserve Accounts

Capital Reserve

N.J.S.A. 18A:7G-31(c), *N.J.S.A.* 18A:7G-13, and *N.J.A.C.* 6A:23A-14.1 (capital reserve) and *N.J.A.C.* 6A:23A-14.2 (maintenance reserve) permit districts, by board resolution, to transfer undesignated general fund balance to either the capital reserve account or maintenance reserve account if approved in the district's original budget certified for taxes or if the district received voter approval by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2. *N.J.S.A.* 18A:7F-41(a), 18A:7F-41(b) and *N.J.A.C.* 6A:23A-14.3 permit a district board of education or board of school estimate to transfer by board resolution at year end (resolution prior to June 30) any unanticipated revenue or unexpended line-item appropriation amounts, or both, to the capital reserve or the maintenance reserve account for withdrawal in subsequent school years.

Current Expense Emergency Reserve

N.J.S.A. 18A:7F-41c(1), effective for years beginning July 1, 2007, provides that districts may establish a current expense emergency reserve account and appropriate funds in the district's annual budget or through a transfer by board resolution at year end of any unanticipated revenue and unexpended line-item appropriation amounts. The account balance is not to exceed $250,000 or one percent of the district's general fund budget up to a maximum of $1,000,000, whichever is greater. Districts were first permitted to establish an emergency reserve fund through the 2008-09 budget process and deposits may be made to the emergency reserve account at budget time unless a district requested a Commissioner tax levy cap waiver, or by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. *N.J.A.C.* 6A23A-14.4 defines year end for purposes of depositing surplus into reserve accounts as an amount approved by the district board of education between June 1st and June 30th. Withdrawals require approval by the Commissioner. Additional guidance is available at this website - http://www.nj.gov/education/finance/fp/af/EmergencyReserveGuidance.pdf .

Debt Service Reserve

N.J.S.A. 18A:7F-41c(2), effective for years beginning July 1, 2007, provides that districts may establish a debt service reserve account in the debt service fund for proceeds from the sale of district property. Transfers may not be made to the reserve account if a district does not have any outstanding debt. The funds are to be used to retire outstanding debt obligations of the district within the lesser of five years from its inception or the remaining term on the obligations. Any remaining balance must be used for tax relief. *N.J.A.C* .6A:23A-14.4 clarifies the term "property."

Tuition Reserve

N.J.A.C. 6A:23A-14.4(a)(3) permits the district to establish a tuition reserve in the general fund at June 30 by board resolution for up to 10 percent of the estimated tuition cost in the contract year for an anticipated tuition adjustment in the second year following the contract year. The code also requires that the district transfer to the general fund, by board resolution, any interest earned on the investments in a tuition reserve account on no less than an annual basis. Refer to page II-10.27 for additional information on tuition reserve.

Waiver Offset Reserve
Fiscal year end June 30, 2011 is the final year that districts are required to establish or increase a waiver offset reserve in accordance with the requirements of *N.J.A.C.* 6A:23A-13.1. Such reserves established at June 30, 2009 were required to be included in revenue line 121 as budgeted surplus for budget year 2010-11. Waiver offset reserves established at June 30, 2010 must be budgeted for budget year 2011-12. Any district required to establish or increase their waiver offset reserve at June 30, 2011 must budget the amount for budget year 2012-13. Accordingly, the waiver offset reserve balance at June 30, 2011 may include balances established at June 30, 2010 and June 30, 2011 only.

Interfund balances

Districtwide 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

Bids & Contracts

Local Finance Notice LFN-2011-16 *The Qualified Purchasing Agent Law and Boards of Education*, issued by the Department of Community Affairs (DCA) May 5, 2011 corrects previous guidance issued to boards of education concerning bid thresholds. Districts without a QPA may continue to operate under the $26,000 base amount of the two-tier bid threshold as described in LFN 2010-13 *Adjustment of Public Bidding Threshold July 1, 2010* and provides that the maximum bid threshold for contracting under the Public Schools Contracts Law (*N.J.S.A.* 18A:18A-2) is $26,000 effective July 1, 2010. Also effective July 1, 2010, the maximum threshold for quotations is $3,900. Contracting units that have appointed a QPA pursuant to *N.J.S.A.* 40A:11-9(b) and take advantage of a higher bid threshold pursuant to *N.J.S.A.* 40A:11-3(a) and 18A:18A-3(a), have their maximum bid threshold increased to $36,000 as of July 1, 2010 and their maximum threshold for quotations is $5,400 as of July 1, 2010.

Local Finance Notice 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 education 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

P.L. 2009, c. 292, effective May 1, 2010, 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 education 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. P.L. 2009, c. 292 applies only to projects with a value of more than $500,000.

Local Finance Notice 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 .

P.L. 2007, c.42 , effective July 1, 2007, amended *N.J.S.A.* 18A:18A-5 to eliminate the requirement for specific reporting to the Director of the Division of Local Government Services in those instances in

which a board of education has determined not to take advantage of a state contract for the purchase of an item because the board can purchase that item at a price which is at least 10 percent below that available under the state contract. Rather, the bill provides that the purchase order relating to the 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.

The districts received 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 is effective January 12, 2010 and extends prevailing wage requirements to contracts for "maintenance-related projects" over $50,000.

P.L. 2006, c.96 (Prompt Payment Law) was signed by the Governor on September 9, 2006. This law concerns the prompt payment of construction contracts and affects construction-related contracts of districts that took effect after September 1, 2006. The law is codified as *N.J.S.A.* 2A:30A-1 et seq. and affects all contracts for "improvements" regardless of dollar amount. Further guidance is available through Local Finance Notice 2006-21 at http://www.state.nj.us/dca/lgs/lfns/06lfns/2006-21.doc

P.L. 2005, c. 271 (Pay-to Play Law) was signed into law on January 5, 2006. A key element of this law allows boards of education to adopt their own pay-to play laws (*N.J.S.A.* 40A:11-51). A second, equally important element requires a new disclosure for certain purchases over $17,500 that are not publicly bid (*N.J.S.A.* 19A:44A-20.26). Local Finance Notices 2006-3 and 2007-11 provide guidance to assist boards of education and their legal counsel in complying with the law. That notice, and other pay-to-play documents are posted on the DLGS Pay-to-Play website at: www.nj.gov/dca/lgs/p2p. 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.

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law) was amended by P.L.1999, c.440. The associated rules were drafted and promulgated by the DCA, with consultation from the Commissioner of Education. A copy of the law along with additional materials on the revisions to the law and the associated rules can be found at www.state.nj.us/njded/pscl**.**

> *Auditor's Note*: The Educational Facilities and Construction and Financing Act (EFCFA), P.L.2000 c.72 (C.18A:7G-5n) states: "The provisions of the "Public School Contracts Law", *N.J.S.A.* 18A:18A-1 et seq., shall be applicable to any school facilities project constructed by a district but shall not be applicable to projects constructed by the authority or a redevelopment entity pursuant to the provisions of this act."

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

> *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 board of education 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 district 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 districts without a QPA was $26,000.

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

> "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of $17,500 [$26,000 effective July 1, 2010] the contract may be awarded by a purchasing agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefore, except that the board of education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."
>
> "If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L.1971, c.198 (C.40A:11-9), the board of education may establish that the bid threshold may be up to $25,000 [$36,000 effective July 1, 2010]. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section."

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 board of education to disqualify a low bidder if any board of education 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 board of education to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.
>
> The board of education may, by resolution approved by a majority of the board of education 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 education 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 education 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 education the authority to pass a resolution authorizing the use of competitive contracting. "In order to initiate competitive contracting, the board of education 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, districts 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 district 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 district administrators should review Local Finance Notices 2009-28 and 2011-1 at http://www.state.nj.us/dca/lgs/lfns/lfnmenu.shtml for current guidance and a 2010-2011 Table of Bid Holiday Acceptance Dates.

N.J.S.A. 18A:18A-22 establishes a list of criteria as bases on which a board of education 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 board of education, 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 board of education 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.

School districts 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 $17,200. 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 district board of education 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.

	ITEM	AGGREGATE TERMS (YEARS)
(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
(12)	Driver Education	3
(13)	Goods and Services for the purpose of conserving energy	15

(14)	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
(15)	Laundry Service	3
(16)	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.

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, school districts 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 board of education, provides the authority for public school districts 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 school district'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", districts 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 shown in the June 30 general fund balance sheet as a reserve for encumbrances. 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, districts 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. Local school district auditors must review the lists and their related documentation and challenge the propriety of the district'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 boards of education nor district officials may use credit cards for the purchase of goods and services. Statutory requirements direct how boards of education may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by boards of education 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 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 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 school districts 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 district board of education 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.

As in the past, the budget statement contains summarized information related to special projects/grants. The detail reflected in the minimum outline for the special revenue fund (fund 20) must be maintained in the accounting records of the district for these summarized special projects. If a district opts to expand beyond the minimum outline in its chart of accounts, there must be a clear trail from the internal accounting records to the information summarized in the format of the minimum outline reflected in the budget statement. In addition, *N.J.A.C.* 6:23A-16.2(f)2 states that when a board of education adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a district fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a school district'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, but instead gives general descriptions of each in the manual. Local school district 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 district boards of education 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 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 with the exception of one ore more June state school aid payments which are recognized as revenue for budgetary purposes but deferred for GAAP purposes, and GAAP for expenditures.

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 one or more deferred June state aid payments are also recognized as revenue for budgetary purposes. For the special revenue fund, GAAP expenditures are calculated as budgetary expenditures plus June 30 prior year encumbrances less June 30 current year encumbrances. The expenditure information presented in the schedules of federal expenditures and state financial assistance is on the budgetary basis.

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 districts 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 *2010-11 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2010-11 Budget Guidelines* is the section "Detailed Appropriations Grid" and it should also be used as a reference tool.

The restricted entitlement Preschool Education Aid must be accounted for in the special revenue fund at the object level between the instruction, support services, and facilities and acquisition functions, following the uniform grant project budget statement coding structure. 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 deferred June state aid payments for Preschool Education Aid should be recognized in the special revenue fund on the GAAP basis in 2011-12.

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 *2010-11 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 districts' 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.

Classification of Administrative Expenditures

N.J.S.A. 18A:7F-5c requires that all regular non-vocational districts submit budgets in which the advertised per pupil administrative costs are within the applicable administrative limit. Due to the restrictions on increasing administration costs, auditors should include as part of their tests of compliance with laws and regulations, an examination of payroll and certain other costs for potential miscoding in administrative expenditures.

As highlighted in section III-6 of this audit program under "Checklist for Annual Audit", the board secretary/business administrator is required to provide the auditor with a salary 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. 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. This listing is intended to assist auditors in testing for miscoding of administrative expenditures. If a similar schedule already exists, this may be expanded to include any additional needed information.

Pursuant to *N.J.A.C.* 6A:23A-1.1, administrative expenditures are defined by the department's Comparative Spending Guide and include general administration (function 230), school administration (function 240), and central services (function 25X). The coding of costs within those functions follows NJ statute (*N.J.S.A.* 18A:4-14) which requires all districts to follow NJ's classification system (minimum chart of accounts or NJCOA) and other reporting directives and guidelines (e.g. Appendix F in the annual budget guidelines) which must be consistent with GAAP and NCES reporting requirements. Additional coding requirements are included in the regulations (*N.J.A.C.* 6A:23A) implementing *N.J.S.A.* 18A:7F-5(c); these regulations are available at the website http://www.nj.gov/education/code/current/title6a/chap23a.pdf

The following bullets and table provide a summary of the detailed descriptions as found in NCES, NJCOA, *N.J.A.C.* 6A:23A, and Appendix F.

- Administrative staff (positions that require an administrator certificate and their staff support), should be recorded in administration (function 230, 240, 25X), with the exception of positions that require a supervisory certificate. Per NCES and NJCOA, the positions of "supervisors of instruction" (which require a supervisory certificate) may be recorded in function 221, "Improvement of Instruction" as detailed in the below bullet, and are therefore, not considered administration.

- School level staff with the responsibility of supervising operations, evaluating/monitoring school staff, and coordinating school level activities are considered school administration (function 240). This includes the activities performed by the principal, assistant/vice principals, head teacher acting as a principal, director and other assistants performing these activities. An exception is the performance of monitoring and evaluation of staff as <u>part</u> of a supervisor of instruction function and if so, the full salary of the supervisor of instruction can be accounted for in function 221. However, if the majority of the supervisor of instruction position is performing administrative duties such as monitoring, supervising and evaluation, hiring, and budget preparation, then all or that majority portion of the position should be recorded in school administration. Per NCES and NJCOA, evaluation and monitoring of staff

is considered school administration unless performed by a supervisor of instruction, and cannot be allocated to improvement of instruction.

- Administrative staff time dedicated to direct instruction as part of the regular curriculum (i.e. teaching classes on a day-to-day basis) may be allocated to the applicable direct instruction function with the appropriate supporting documentation (e.g. schedules and class rosters). The one exception is a principal's salary which cannot be allocated to direct instruction unless the district obtained specific County Superintendent approval since New Jersey regulations (*N.J.A.C.* 6:3-1.6(c)) require every school to have a full time non-teaching principal unless approved by the County Superintendent.

- Superintendents, Business Administrators, and Principals/Vice Principals should not be allocated to support functions. Other administrative positions are deemed to be administration unless it can be demonstrated that the position is clearly dedicated to a specific service area; appropriate documentation should be available to support an allocation, such as case load information for allocation to guidance/counseling, function 218, "other support services – regular."

- Full time department chairpersons should be recorded in school administration and any stipends received by teachers to perform chairperson duties part time should also be recorded in school administration. Department directors are considered school administration and per NJCOA, directors for special education/student services, guidance and athletics should be recorded in school administration.

- Work of staff that supports administration should be recorded in administration. In accordance with NCES and NJCOA, this includes all central office, school office, business and administrative technology non-certificated staff, as well as clerical staff that support teaching duties.

The following table provides general guidance for classification of administrative certificated staff.

Any administrative salary may be allocated to direct classroom instruction if the position is part of the regular teaching curriculum of the district, except for the principal function since a full time principal is required unless the district has received County Superintendent approval. Proper documentation must be maintained to support the allocation, such as a formal teaching roster, schedule or similar document.

Function	Description	
General Administration	Used to record costs associated with establishing and administering policy.	
Account	Title	Coding Guidance
11-000-230-100	Superintendent	Record full salary here unless performing principal function.
11-000-230-100	Assistant Superintendent	Record full salary here unless function dedicated to a specific support area. May be allocated to specific support function with proper documentation.
Function	Description	
School Administration	Used to record costs associated with supervision of school operations, evaluation of staff and supervision and maintenance of school records.	

Account	Title	Coding Guidance
11-000-240-103	Principal/Vice Principal	Record full salary here unless performing superintendent function.
11-000-240-104	F/T Department Chairs	Record full salary here.
Function	Description	
Central Services	Used to record costs associated with the business function and costs that support research and development, planning, evaluation, information services, data processing services and staff services.	
Account	Title	Coding Guidance
11-000-251-100	Business Administrator	Record full salary here.

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 district misbudgeted the appropriation. In cases where it is clearly supported by district 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. District 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. Districts 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 district 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.

***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 district boards of education 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.

N.J.S.A. 18A:22-44.2 provides that districts are to record the one or more June deferred state aid payments of the 2010-11 school budget year (paid in July 2011) as revenue for budget purposes only in the 2010-11 accounting records. Any negative unreserved undesignated fund balance which is a direct result of a state school aid payment for the current budget year not paid until the following budget year shall not be considered a violation of any law and does not need corrective action. (See Section III for example of note disclosures).

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 districts record transactions on a cash basis, with the exception of recording revenues for formula state aid and local taxes. 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 district'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 districts 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. Districts should reference the aforementioned materials for the specific entries that must be made in other funds. Districts 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.

<u>June state aid payments</u>

Pursuant to *N.J.S.A.* 18A:22-44.2 districts are to record the one or more deferred June state aid payments of the 2010-11 budget year (received July 2011) as revenue for budget purposes only in the 2010-11 accounting records.

For year end conversion to the GAAP modified accrual statements, the district will need to make an adjustment equal to the amount of revenue for each state aid category (both general fund and special revenue fund) included in the one or more deferred June state aid payments. The adjustment to GAAP would be to record the prior year last state aid payment (2009-10) and to eliminate the current year (2010-11) June state aid payments that were recorded for budget purposes. This adjustment will eliminate the budgetary only recognition of 2010-11 state aid revenue and the Intergovernmental Receivable – State. The expenditures which have been deducted from the gross revenue when the state calculates the net cash payments are neither reversed nor accrued since these have been paid in full by the state as of each June 30. (See end of Section I-8 for example).

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 an 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 district 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/audit/0304/po.pdf

The Fiscal Accountability code (*N.J.A.C.* 6A:23A-9.11(b) requires the office of the Executive County Superintendent or state monitor, as applicable, to review each school district's and county vocational school district's audited accounts payables and encumbrances that are part of the reserve for encumbrances as of June 30 that are in excess of $5,000. Encumbrances or accounts payable which are not valid will be reclassified to "designated general fund balance for tax relief in the subsequent school year". Auditors should refer to *N.J.A.C.* 6A:23A-9.11(e) and (g). Except for construction projects and other long-term contracts, encumbrances which have been cancelled on or after July 1 or which have not been liquidated by September 30 of the fiscal year subsequent to the recently audited fiscal year shall be reclassified. (*N.J.A.C.* 6A:23A-9.11(e)) Accounts payable for goods or services that have not been received or rendered on or before June 30 of the audited fiscal year, will be treated as encumbrances or undesignated general fund balance. (*N.J.A.C.* 6A:23A-9.11(f), and (g)).

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

Districts are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues whose collection amounts are known. Districts 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. Examples would be uncollected contracted tuition amounts and interest earned on investments. Adjustments for prior year's tentative tuition charges for regular pupils made because of a difference in actual per pupil cost may only be made during the third school year following the contract year. No accrual is made for such adjustments. The payments of adjustments for special education pupils are made

in accordance with the terms of the original contract. Districts must also determine the collectability of any uncollected accounts receivable balances as of June 30.

Uncollected balances for tax levy and state aid should be investigated. Uncollected balances for state aids may be the result of the state facilities tuition adjustment and other certificates of debit and credit not being recorded or being recorded incorrectly. Uncollected balances for a district's tax levy may be the result of an amount certified by the Commissioner which was too late for inclusion in the current year tax levy.

For budgetary purposes only, the June state aid payments of school fiscal year 2010-11 will be included in the revenue of 2010-11, pursuant to *N.J.S.A* 18A:22-44.2. For year end conversion to the GAAP modified accrual statements, the district will need to make an adjustment for each state aid categories of the general fund and special revenue fund included in the deferred June state aid payments. The adjustment eliminates the Intergovernmental Receivable – State. Districts should have available the final state aid payment schedule as support for the adjustment of the applicable revenue. The expenditures that have been deducted from the gross revenue when the state calculates the net cash payments are not reversed since these have been paid in full as of June 30 by the state. In addition, for the GAAP basis financial statements, districts should recognize the last state aid payment for fiscal year 2009-10, made in July 2010 which was recorded in 2009-10 as revenue for budgetary purposes but not for GAAP statements. This is to enable the districts to be consistent with the state reporting under GASB 33.

3) Analyze Balance Sheet Account Balances:

Districts 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 district 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 district, 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 district 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). Similarly, the district staff is required to maintain a schedule of long-term debt. The schedule of long-term debt supports the balance presented for the current and noncurrent portions of long-term debt on the *Statement of Net Assets* (Exhibit 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:

A/C		**DEBIT**	**CREDIT**
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

A/C		DEBIT	CREDIT
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:

	DEBIT	CREDIT
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. Districts do not have to include final adjusting and closing entries in the report. The report should include normal monthly adjusting entries. Districts must remember to run final reports, ledgers, journals, etc. prior to posting the closing entries for the year.

Capital Assets and Long Term-Debt

Districts 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:

- Districtwide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the district wide *Statement of Net Assets* (Exhibit A-1). Depreciation is reported in the S*tatement 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. Districts 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) - districts will continue to report capital outlay and bond proceeds 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. Districts 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
Debt Service Fund	p. 10.3
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 districts 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.

Districts 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 district 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 an 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 districtwide *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.

The current fiscal year's deferred state aid payment and the reversal of the deferred prior fiscal year's state aid payment will be reconciling items (GAAP vs budgetary basis) for revenues. Encumbrances will be a reconciling item for both revenues and expenditures in the Note to Required Supplementary Information – *Budget to GAAP Reconciliation.* This note reconciles the budgetary basis revenue and expenditures to the amounts reported in the governmental funds *Statement of Revenues, Expenditures, and Changes in Fund Balances*. See Section III-3 for illustration of this note.

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. Districts and auditors should refer to Section II-20 of this Audit Program for further guidance on the carryover of certain restricted state aids which should be reported as 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. Districts 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 Closing Entries

The general ledger will be closed based on preliminary amounts. Adjustments which arise as a result of the liquidation of the June 30 encumbrances during applicable close-out periods will be reflected in the CAFR, however, the adjusting entry will be recorded in the subsequent year's general ledger. The *Technical Systems Manual* should be referenced for examples of the liquidation of encumbrances during the closeout period. The closing entries to be recorded in the special revenue fund are as follows:

Dr. Appropriations (20-601)
    Cr. Estimated Revenues (20-301)

Dr. Revenues (20-302)
    Cr. Expenditures (20-602)
(With the appropriate entries being made in the revenue and expenditure subsidiary ledgers.)

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, districts must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, districts 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, districts should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the district's figures based on the results of his/her audit. In those instances, the auditor should provide the district with the necessary post-closing adjusting entries to correct the July 1 opening balances. Districts 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 districts have a clear understanding of how to key those adjusting and closing entries into their accounting software package.

Deferral of One or More June State School Aid Payments for GAAP Reporting:

Under GAAP financial reporting, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the June state school aid payments are not considered revenue to the school district if the State has not recorded the corresponding expenditure. For intergovernmental transactions, GASB 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the state is recording the June state aid payments for 2010-11 in the subsequent fiscal year, school districts cannot recognize these June state aid payments on the GAAP financial statements until the subsequent fiscal year. In addition, since the state recorded the last state aid payment for 2009-10 in 2010-11, school districts should recognize the 2009-10 last state aid payment in the 2010-11 GAAP financial statements.

Existing state and federal regulations may conflict with GAAP reporting. If a conflict exists between GAAP and any legal/contractual requirement, *N.J.A.C.* 6A:23A-16.3 requires every district board of education to develop budgets and maintain an accounting system on the legal/contractual basis, such that sufficient records exist to enable reporting in conformity with GAAP at year end.

Pursuant to *N.J.S.A.* 18A:22-44.2, revenue recognition for state aid payments should be recorded in the year budgeted regardless of whether the state has recorded the corresponding payable in the same fiscal year. Due to the conflict between state regulations and GAAP requirements, districts will need to prepare a reconciliation in their year end CAFR between the legally mandated budgetary schedules and the modified/full accrual financial statements prepared in accordance with GAAP.

An example of the reconciliation process for the deferral of the 2010-11 June state aid payment in both the general and special revenue funds is provided here as guidance. (See Section III – Chapter 3 for sample disclosures and reconciliations.) Districts must use the final state aid payment schedule (June 2011) to determine the cash amount of the last two state aid payments prior to withholding. Note that state aid which is not included on the revised payment schedule (e.g., nonpublic school aid, grants) is not included in the last two state aid payments. The cash payment schedule to the school district for state aid may be different from the revenue due to certain adjustments deducted from the receivable for those expenditures that the state pays on behalf of the district, such as tuition to Katzenbach.

Assume that a district is entitled to the following revenues:

Equalization Aid	$208,065,785
Education Adequacy Aid	37,475,295
Transportation Aid	3,624,557
Special Education Categorical Aid	19,778,459
Adjustment Aid	2,936,604
Security Aid	809,780
Total General Fund	272,690,480
Preschool Education Aid	41,273,358
Total Special Revenue Fd	41,273,358
Total State Aid	$313,963,838

Assume that a district has the following deductions (expenditures paid by the state from district funds):

Day Training Tuition	$869,679
State Facility Tuition	4,537,328
Total Deductions	$5,407,007

Based on the revenue and deductions, cash payments to the district for the year would equal $308,556,831. The first 18 payments are each $15,427,842 and the June state aid payments (2) are $15,427,833 each. The following allocation method should be used to convert the budgetary schedules to the GAAP statements:

		General Fund		Special Revenue Fund	Totals
State Aid Revenue	**A**	272,690,480	**B**	41,273,358	313,963,838
Deductions		(5,407,007)		N/A	(5,407,007)
Cash		267,283,473		41,273,358	308,556,831
Divide by 20		/20		/20	
Adjustment		13,364,174		2,063,668	15,427,842
Adjust GF to equal		(9)			(9)
Final Adjustment		$13,364,165		$2,063,668	$15,427,833

The allocation applies the deduction against the general fund revenue and not the special revenue fund revenue. There may be a difference in either of the June state aid payments from earlier payments due to adjustments made during the year. This difference should also be applied only against the general fund. GAAP financial statements aggregate the revenue by three categories - local, state and federal - and not by the individual source. Districts may not need to allocate the adjustment further to a specific individual revenue source unless the district is subject to single audit and needs to complete the schedule of state financial assistance. Where necessary, once the above adjustment is calculated by fund, the district should prorate the total of the general fund adjustment based on the ratio of original revenue source to the total general fund state aid subject to the adjustment. The special revenue fund adjustment is done in the same method.

Below is an example of the proration method:

State Aid	Revenue	% of Revenue	Adjustment Applied to Each State Aid
Equalization Aid	208,065,785	76.30	10,196,858
Education Adequacy Aid	37,475,295	13.74	1,836,236
Transportation Aid	3,624,557	1.33	177,743
Special Education Categorical	19,778,459	7.25	968,902

Aid			
Adjustment Aid	2,936,604	1.08	144,333
Security Aid	809,780	0.30	40,093
Total GF **[A]**	272,690,480	100 %	13,364,165
Preschool Education Aid	41,273,358	100.00	2,063,668
Total SRF **[B]**	41,273,358	100 %	2,063,668
Total State Aid	$313,963,838		15,427,833

Assuming the district has properly recorded all the adjustments as expenditures, the following journal entry would be required at year end:

		Debit	Credit
General Fund			
10-302	Revenue	13,364,165	
10-141	Intergov. A/R-State		13,364,165
	(To adjust to GAAP basis revenue for last state aid payment)		
10-3176	Equalization Aid		10,196,858
10-3175	Education Adequacy Aid		1,836,236
10-3121	Transportation Aid		177,743
10-3132	Special Education Categorical Aid		968,902
10-3178	Adjustment Aid		144,333
10-3177	Security Aid		40,093
	(Optional posting to revenue ledger, if needed)		
Special Revenue Fund			
20-302	Revenue	2,063,668	
20-141	Intergov. A/R-State		2,063,668
	(To adjust to GAAP basis revenue for last state aid payment)		
20-3218	Preschool Education Aid		2,063,668
	(Optional posting to revenue ledger, if needed)		

Highlighted below are those CAFR pages that are impacted by the timing difference of recording the last state aid payment.

GASB 34 CAFR				
Exhibit	**Statement Title**		**Impact of Last State Aid Payment**	
A-1	Statement of Net Assets		Reduced net assets; possible deficit in governmental activities equal to the last state aid payment	
A-2	Statement of Activities		Reduction in state aid revenue	
B-1	Balance Sheet/Governmental Funds		Reduced fund balance; possible	

			deficit in both general fund & special revenue fund equal to the last state aid payment	
B-2	Statement of Revenues, Expenditures and Changes in Fund Balances -Governmental Funds		Reduction in state aid revenue – general and special revenue funds	
C-1	Budgetary Comparison Schedule – General Fund		Include line "Last State Aid Payment not Recognized on GAAP Basis" in the **Recapitulation** section at the end of the schedule – see example below	
C-3	Budget to GAAP Reconciliation or Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures		Include reconciling items due to last state aid payment revenue recognition policy for general and special revenue funds	

Refer to Section II-10.23 for an illustration of the presentation of the last state aid payment on the recapitulation of balances at the end of the *Budgetary Comparison Schedule of the General Fund.*

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