

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY CHARTER SCHOOLS**

**THE AUDIT PROGRAM
FY 2009-10**

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF FINANCE & REGULATORY COMPLIANCE
PO BOX 500
TRENTON, NEW JERSEY 08625-0500**

**Bret Schundler, Commissioner
State Board of Education**

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Division of Finance & Regulatory Compliance**

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NEW JERSEY CHARTER SCHOOLS
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**SUMMARY OF SIGNIFICANT STATUTORY,
REGULATORY AND POLICY ISSUES**

N.J.S.A. 18A:36A-11(a)

A charter school shall operate in accordance with its charter and the provisions of law and regulation which govern other public schools except that, upon the request of the board of trustees of a charter school, the Commissioner may exempt the charter school from State **regulations** concerning public schools, except those pertaining to assessment, testing, civil rights and student health and safety, if the board of trustees satisfactorily demonstrates to the Commissioner that the exemptions will advance the educational goals and objectives of the schools. **There are no exemptions from State statutes.**

The auditor should take care in evaluating each law that may or may not be applicable to a charter school. As an example, since a charter school does not receive state aid directly, some laws applicable to state aid may not apply to a charter school.

N.J.A.C. 6A:23A-15– Enrollment counts, payment process and aid adjustments

Charter schools, by law, are paid a per pupil amount along with all applicable categorical aid for all students enrolled in the charter school. It is imperative that the independent auditors test the submission of the charter school enrollment counts in accordance with instructions given in the Audit Program. Both the Department of Education and the public school districts depend on the reliability of this enrollment data in determining the amount of charter school aid a charter school is entitled to.

SIGNIFICANT CHANGES FOR 2009-2010

FISCAL ACCOUNTABILITY, EFFICIENCY AND BUDGETING REGULATIONS

The accountability regulations under *N.J.A.C. 6A:23A* include the recodification with amendments of *N.J.A.C. 6A:23* into subchapters 16-22 and the readoption with amendments of the emergency rulemaking, subchapters 1 thru 15.

Charter school boards of directors and administration are responsible for developing internal control policies and procedures and maintaining a strong internal control environment. *N.J.A.C. 6A:23A-6.4* requires that the charter school's internal control policies include specific requirements at *N.J.A.C. 6A:23A-22.6* through 22.15 and *N.J.A.C. 6A-7*. Not all sections were required to be implemented as of June 30, 2009. The following table indicates the specific internal controls that, at a minimum, should be in place during 2009-10.

N.J.A.C.	Description	Implementation Date
6A:23A-22.14	Standard Operating procedures for business functions	July 1, 2010
6A:23A-7	Board Travel Policy	December 31, 2009
6A:23A-22.8	Verification of payroll check distribution	July 1, 2009
6A:23A-22.10	Nepotism Policy	October 1, 2009
6A:23A-22.11	Contributions to Board Members and contract awards	October 1, 2009

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA)

The law, signed by the President February 17, 2009, requires tracking and separate reporting of ARRA funds. Although most charter schools will not have expended funds by June 30, 2009, charter schools with department approved ARRA Title I or IDEA summer programs were permitted to obligate funds prior to June 30th. If ARRA funds were obligated or expended by June 30, 2009, they must be included in the calculations for the single audit threshold and major programs. Auditors should be alert to determine whether auditees have properly identified ARRA awards.

Charter Schools with approved "ARRA Requests for Approvals – Summer Programs" were permitted to obligate funds prior to June 30 for summer programs using ARRA-Title I, ARRA-Title I SIA Part A and ARRA-IDEA funding. The department website, <http://www.state.nj.us/education/arra/> contains guidance and links to the U.S. Department of Education ARRA documents.

The Single Audit chapter (II-SA) of the *Audit Program* has been updated to include information on ARRA in the previous year. At the time of this Audit Program, OMB A-133 Compliance Supplement had not been published. However, auditors should continue to check the federal website for any updates to the ARRA supplement to the Compliance Supplement. ARRA funds must be reported separately in the Schedule of Expenditures of Federal Awards and the Data Collection Form and identified using the prefix ARRA with the unique CFDA number for the specific ARRA program.

OTHER CHANGES/UPDATES FOR 2009-10

The following is a summary of changes/updates:

1. General changes are found throughout the document and include:
 - Changed references to code that have been replaced by *N.J.A.C. 6A: 23A*.
2. Specific changes are found in the following sections/chapters:

Introduction

Section I-1

- DCA issued LFN-2009-19, *Local Unit ARRA and Related Grant Compliance Responsibilities*
- SAS 112, *Communicating Internal Control Related Matters Identified in an Audit* has been superseded by SAS 115 of the same title
- SAS 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* has been superseded by SAS 117, *Compliance Audits* developed in response to findings in a federal study on single audit quality

Section I-2

- No change

Section I-3

- SEMI reimbursement rates changed
- The independent auditor is required to perform follow-up tests and procedures to determine whether findings identified in reports issued by the Department's Office of Fiscal Accountability and Compliance (OFAC) related to ASSA, DRTRS, EXAID and Chapter 192/193 State Aid entitlements have been resolved

Section I-4

- No change

Section I-5

- Included link to Local Finance notice (LFN) 2010-3 *Guidance on Current Issues in Local government and Board of Education Procurement* which addresses political contribution disclosure regulations; competitive contracting for school and professional development services and professional services; and board of trustees federal procurement requirements
- P.L. 2009, c. 292 provides procedures for contracting units to select the lowest responsible bidder in instances where alternates or base bids with options are used for public works projects
- P.L. 2009, c.249 is effective January 12, 2010 and extends prevailing wage requirements to contracts for "maintenance-related projects" over \$50,000

Section I-6

- Reminder that the Uniform Minimum Chart of Accounts was modified to include new account codes, effective July 1, 2009

Section I-8

- Removed September 16, 2003 Year-End Encumbrance Hotline

Section II-10

- Added website for charter schools with Commissioner approval of travel costs

- No change

Section II-30

- No change

Section II-40

- No change

Section II-50

- No change

Section II-60

- Interest and late fees are not an allowable expense that can be paid from the food service (enterprise) fund. If incurred, interest and/or late fees must be paid directly from the charter school's general/operating fund resources, not from the food service (enterprise) fund
- Where one student member of the household has a food stamp or TANF case number, free eligibility can be extended to any other student from that household.
- Final sample size must be based on the actual number of approved applications on file as of October 1
- Expansion of audit requirements for FSMC contracts (page II-60.13) to include examination of fees incurred and evaluation of performance

Section II-80

- Added accounting guidance for health cost withholding from employees (1.5%)

Section II-SA

- Single Audit Summary has been included as part of the required CAFR package submission. Type A worksheet has been deleted and incorporated in the Single Audit Summary.
- Clarification on carryover and deferred revenue added
- Federal CFDA and State aid numbers are updated
- School lunch rates are updated

Section III-1

- Referenced Assembly bill A415 which would add one month to the audit due date
- Added electronic AMR, Data Collection Form, and Type A Programs Worksheet to the submissions list
- Electronic copy of the AMR should be sent to the NJ Department of Agriculture
- Added reference and link to illustrative *Schedule of Findings and Questioned Costs* revised for SAS 115

Section III-2

- Removed reference to SAS 112 and replaced with SAS 115
- Removed sample reports and replaced with links to illustrative reports (revised for SAS 115) published by the AICPA (spring 2010)

Section III-3

- Revised illustrative Retirement Benefits footnote for current participant and State contributions information
- Revised illustrative Excess Surplus calculation for Executive Order No. 14
- Deleted reference to CEIFA

Section III-4

- Assembly Bill A415 proposes to add one month to the audit submission date beginning with the current audit period.
- Clarified that the Schedule of Meal Count Activity is required only if the Child Nutrition Program is a major program audited in the current period
- *Schedule of Findings and Questioned Costs* Section II – Financial Statement Findings has been revised for SAS No. 115
- Footnotes regarding sample size have been added to the Schedule of Audited Enrollments (ASSA)

Section III-5

- No change

Section III-6

- For 2009-10, Food Service Checklist item #24 has been modified. All charter schools must have records identifying discounts, rebates and other applicable credits. This was only required of charter schools for 2008-09 that had a new base year Food Service Management Contract
- Audit Questionnaire #19 (C1) added verification of entry for SEMI reimbursement; Position Control Roster questions #27 through #29 are applicable to all charter schools; SBB section revised for current operating environment
- SEMI audit procedures have been updated to include whether the charter school included reimbursement eligible services in the 3rd party administrator's system for reimbursement.

Section III-7

- No change

Section III-8

- Quality Assessment Review Checklist item number 13 and number 19 revised for early implementation of GASB Statement No. 54
- Quality Assessment Review Checklist items 30 and 31 for new terminology and definitions required by SAS No.115
- QAR confirms that Auditor's Management Report contains all the findings reported in the Single Audit Section of the CAFR.
- Deleted from QAR previous questions 13, 14 and 15 related to leases

OVERVIEW

Financial Accounting for Charter Schools (The Audit Program) is updated annually and includes instructions for both charter school personnel and public school accountants regarding preparing for and performing the annual audit. The full text of *The Audit Program* is available on the web site <http://www.nj.gov/education/finance/sf/charter/0910/>.

The *Comprehensive Annual Financial Report* (CAFR) is the basis for the annual audit. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23 A-22*) require charter schools to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

Reference Materials

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

Responsibility/Government Auditing Standards

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

The federal Single Audit Act requires that organizations that expend \$500,000 or more in federal financial assistance have an audit conducted in accordance with guidance provided in the Office of Management and Budget Circular A-133. NJ Circular Letter 04-04-OMB requires that New Jersey charter schools that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy. *Government Auditing Standards July 2007 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) and is available through the website: <http://www.gao.gov/govaud/ybk01.htm>. A summary of major changes since the 2003 version is also available through that website.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of June 30 audits is Thursday, November 5, 2010. The Commissioner has statutory authority (*N.J.S.A.* 18A:23-6) to appoint auditors for charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A.* 18A:7A-55 includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. The CAFR

The CAFR is the charter school's official annual report. It should include all funds of the charter school. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a charter school falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the revised OMB Circular 133, and/or the reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. The CAFR will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each charter school as well as any additional statements, schedules, and disclosures required under the circumstances of the charter school. The report must also include all applicable single audit opinion letters prepared by the local charter school's auditor in the single audit section. Sample single audit letters are provided in Section III – Chapter 2 of *The Audit Program*. The Office of the State Comptroller (OSC) has the authority to request the CAFR and AMR be sent to OSC (*N.J.S.A.* 52:15C-1 et seq.).

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

This separate report will serve as the auditor's report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4. With the passage of P.L. 2007, c.52 (*N.J.S.A.* 52:15C-1 et seq.), the Office of the State Comptroller (OSC) has the authority to request the CAFR and AMR be sent to OSC.

3. Audit Summary Worksheet

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and given to the board secretary/business administrator. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. The board secretary/business administrator is responsible for the transmission of the Audsum data via the DOENET to the Department of Education by the same due date as the CAFR. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and charter school personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other organizations throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to

the board for conformance with GAAP. The AMR is the auditor's report to the board of directors of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the charter school is required.

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

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

The financial statements are the responsibility of the board of education's management. The General Accounting Office (GAO) *Government Auditing Standards* (see the Introduction to this *Audit Program*) provide that an auditor may not audit financial statements prepared by that same auditor. The department recommends that charter school management and auditors give careful consideration to the independence standard and its impact on the auditors of the charter school financial statements.

Charter schools should reference the NJ Department of Education (NJDOE) website at <http://www.nj.gov/education/finance/sf/charter/0910/> for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by charter school staff. Information on Management Discussion and Analysis (MD&A) requirements is also available at that web site to assist auditors and charter school staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE, after consultation with the NJASBO GASB 34 Taskforce and the NJSCPA, requires that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to the preparation of NJ charter school CAFRs may be emailed to doecafr@doe.state.nj.us.

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

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

Introductory Section – Although not required by GASB 34, this section is still used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the charter school and information useful to the reader to evaluate the charter school’s financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR (GASB 34, fn 7).

Financial Section – This section includes the: 1) independent auditor’s report, 2) MD&A, 3) basic financial statements including the charter school-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a charter school has only two programs in the Proprietary Fund, a combining schedule would not be necessary. The School Level Schedules (D series in the Outline) should only be included for charter schools that are required to use school-based budgeting. Indicate by "N/A" when a schedule is not applicable.

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the charter school and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules and guidance for preparing the schedules can be found on the NJDOE web site <http://www.nj.gov/education/finance/sf/charter/0910/>. The outline of the CAFR reflects these revisions. Statistical information to assist charter schools and auditors in preparing this section is posted on that web site (click on Audit Information, and 2009-10 Audit Program).

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

The statutory deadline for submission will be strictly enforced. Charter School aid may be suspended consistent with N.J.S.A. 18A: 55-2 for any charter school with an audit report, including the Auditor's Management Report and the Audit Summary Worksheet Diskette, outstanding after the November 5, 2010 submission date.

The Commissioner will also consider exercising the statutory authority (*N.J.S.A. 18A: 23-6*) to appoint auditors for charter schools failing to meet the statutory deadline or invoking other administrative actions. This will apply to all late audits.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

Letter of Transmittal
Organizational Chart
Roster of Officials
Consultants and Advisors

FINANCIAL SECTION

Independent Auditor's Report

Required Supplementary Information – Part I Management's Discussion and Analysis

Basic Financial Statements

- A. Charter School-wide Financial Statements
 - A-1 Statement of Net Assets
 - A-2 Statement of Activities

- B. Fund Financial Statements:
 - Governmental Funds:
 - B-1 Balance Sheet
 - B-2 Statement of Revenues, Expenditures and Changes in Fund Balance
 - B-3 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

 - Proprietary Funds:
 - B-4 Statement of Net Assets
 - B-5 Statement of Revenues, Expenditures and Changes in Fund Net Assets
 - B-6 Statement of Cash Flows

 - Fiduciary Funds:
 - B-7 Statement of Fiduciary Net Assets
 - B-8 Statement of Changes in Fiduciary Net Assets

Notes to the Financial Statements

Required Supplementary Information – Part II

- C. Budgetary Comparison Schedules
 - C-1 Budgetary Comparison Schedule – General Fund
 - C-1a Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual **(if applicable)**
 - C-2 Budgetary Comparison Schedule – Special Revenue Fund

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Notes to the Required Supplementary Information

C-3 Budget-to-GAAP Reconciliation

Other Supplementary Information

D. **Not Applicable**

E. Special Revenue Fund:

E-1 Combining Schedule of Revenues and Expenditures Special Revenue Fund – Budgetary Basis

E-2 Preschool Education Aid Schedule(s) of Expenditures – Budgetary Basis

F. Capital Projects Fund:

F-1 Summary Schedule of Project Expenditures

F-2 Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis

F-2(x) Schedule(s) of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis

G. Proprietary Funds:

Enterprise Fund:

G-1 Combining Statement of Net Assets

G-2 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.

G-3 Combining Statement of Cash Flows

Internal Service Fund:

G-4 Combining Statement of Net Assets

G-5 Combining Statement of Revenues, Expenses and Change In Fund Net Assets

G-6 Combining Statement of Cash Flows

H. Fiduciary Funds:

H-1 Combining Statement of Fiduciary Net Assets

H-2 Combining Statement of Changes in Fiduciary Net Assets

H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements

H-4 Payroll Agency Fund Schedule of Receipts and Disbursements

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I. Long-Term Debt:

- I-1 Schedule of Mortgage Obligations
- I-2 Schedule of Obligations under Capital Leases
- I-3 Debt Service Fund Budgetary Comparison Schedule

STATISTICAL SECTION (Unaudited)

Introduction to the Statistical Section

Financial Trends

- J-1 Net Assets by Component
- J-2 Changes in Net Assets
- J-3 Fund Balances – Governmental Funds
- J-4 Changes in Fund Balances – Governmental Funds
- J-5 General Fund – Other Local Revenue by Source

Revenue Capacity

- J-5 – J-9 N/A

Debt Capacity

- J-10 Ratios of Outstanding Debt by Type
- J-11 -13 N/A

Demographic and Economic Information

- J-14 Demographic and Economic Statistics
- J-15 Principal Employers

Operating Information

- J-16 Full-time Equivalent Charter School Employees by Function/Program
- J-17 Operating Statistics
- J-18 School Building Information
- J-19 Schedule of Required Maintenance Expenditures by School Facility
- J-20 Insurance Schedule

SINGLE AUDIT SECTION

- K-1 Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- K-2 Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls Over Compliance in Accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04
- K-3 Schedule of Expenditures of Federal Awards, Schedule A
- K-4 Schedule of Expenditures of State Financial Assistance, Schedule B
- K-5 Notes to the Schedules of Awards and Financial Assistance
- K-6 Schedule of Findings and Questioned Costs
- K-7 Summary Schedule of Prior Audit Findings

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATIONS

Appointment of Auditor

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

A charter school board of trustees should refer to *N.J.A.C.* 6A:23A-16.2(i)1, for regulations on obtaining audit firm peer reviews (www.state.nj.us/njded/code/title6a/chap23.pdf). The code requires that charter schools engage only licensed public school accountants who have had a peer review performed in accordance with the Government Auditing Standards (Yellow Book) and obtain a copy of the audit firm's peer review. The board of trustees is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

Government Auditing Standards July 2007 Revision (The Yellow Book) updates the quality control and peer review sections in Chapter 3 and is applicable for financial audits of periods beginning on or after January 1, 2008. Earlier implementation is permitted and encouraged. The *Yellow Book* is available in electronic format at the Government Accountability Office (GAO) web site <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. Charter school personnel are expected to perform the following 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/Administrator 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.

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Scope of Audit/Risk Assessment/Internal Controls

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

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Permanent Funds
5. Enterprise Funds and Internal Service Funds
6. Trust and Agency 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 charter school's CAFR as a component unit. Paragraph 6 of GASB 39 states, "It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrants inclusion in the reporting entity."

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

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

Responsibility for the completion of the Audit Summary Worksheet (Audsum) diskette rests with the auditor. The charter school is responsible for the transmission of the Audsum to the DOE. The School 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. This information will be the source documents generating financial comparisons for the general public and for federal reporting.

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 and audit requirements as prescribed by the Division of Finance. The auditor is also responsible for reviewing the unaudited sections of the CAFR. Adjustments required as a

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result of the audit procedures performed should be reflected in the CAFR issued by the charter school. See Section III-1 for required submission of reports.

Local Finance Notice LFN-2009-19, *Local Unit ARRA and Related Grant Compliance Responsibilities*, was issued during September 2009 by the Department of Community Affairs (DCA) and provides guidance related to the federal American Recovery and Reinvestment Act (ARRA). Item number 3 of this LFN provides a summary of auditor’s responsibilities for ARRA and for Single Audit. The notice is available at <http://www.state.nj.us/dca/lgs/lfns/09lfnlis.shtml>

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 supersedes 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 establishes 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 new risk assessment standards SAS 104 through SAS 111; collectively known as the Risk Assessment Standards, in March 2006. These standards are effective for the June 30, 2008 charter school audits.

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

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

Charter Schools that expend \$500,000 or more in federal financial assistance or State financial assistance are required to have an annual single audit performed in accordance with the federal Single Audit Act and the OMB Circular No. A-133 and State policy. Charter Schools that expend \$100,000 or more in State and/or federal financial assistance must have either a financial statement audit performed in accordance

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with *Government Auditing Standards (Yellow Book)* or a program-specific audit performed in accordance with the Single Audit Act and OMB Circular A-133 and state Policy.

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

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

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

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. Increased understanding of the audited charter school's internal controls will also enhance management's efficiency and effectiveness.

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

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

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

During December 2009, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standard (SAS) No. 117, *Compliance Audits*. SAS No. 117 supersedes SAS No. 74, *Compliance*

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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. Therefore, it is important for auditors to become familiar with its provisions for year end June 30, 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 for purchase from the AICPA.

Fiscal Accountability Legislation

Legislation enacted during 2007 provides measures that must be taken to ensure fiscal accountability. Charter schools are required to adhere to the travel guidelines and additional guidelines pursuant to N.J.A.C. 6A:23A-22 to ensure fiscal accountability and efficiency of charter schools. These regulations can be reviewed at <http://www.state.nj.us/education/code/current/> .

DECLARATION OF ACCOUNTANT

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

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

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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.* 18A: 10:4-6 et seq.)

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

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

- a. A list of all employees, salaries and wages approved by the board.
- b. The final approved budget.
- c. Details of the annual organization meeting of the board.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the board secretary/school business administrator and the 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. Loan agreements.
- j. Required Board of Trustees Policies:
 - Travel and expense reimbursement
 - Public Relations and Professional Services
 - Nepotism
 - Contributions and Contracts Awards
 - Policy on Exceeding Purchase Order Amounts

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Minute Records

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

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CHARTER SCHOOL AID

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

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

A sample of the charter school aid payment schedule is included in Appendix A.

School Register

The school district of residence must enroll charter school students in the school register and treat them as resident students for purposes of state aid. The charter school's responsibility is to ensure the attendance of those students enrolled in their school in accordance with *N.J.A.C.* 6A:23-9. A student who has been absent 10 days for an unknown reason must be reported as a dropout and the charter school must immediately notify the school district of this condition in writing.

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

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

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Enrollment Counts

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

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

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

Charter schools must complete the enrollment count submission, which documents the compilation of register data for the purposes of charter school aid calculation and provides an audit trail for the auditor to use as a basis for testing. Charter schools are required to prepare written internal procedures, which should provide a description of the count process for the four required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count. The workpapers, original supporting documentation and internal procedures should be maintained on file for a period of seven years.

Sampling Methods/Sizes - Audit Procedure

Testing should include samples from each of the enrollment count dates, i.e. October 15, 2009, and the last day of school 2010. The sample selected for the enrollment submission will result in testing all the specifics to the student selected in that sample. The two enrollment submissions are based on actual enrollment into the charter school; therefore, the audit of both counts sampled will be verification of the number of days enrolled and agreement to the school register.

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

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

On Roll -

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

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

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

Special Ed/ Bilingual -

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

Auditors are required to inquire as to the status of any special education student in outside placements. **NOTE: If a charter school student has been placed in a Private School for the Disabled, the auditor must:** 1. Verify that the IEP requires the private placement; 2. Verify that the student is not reflected/listed in the Charter School Enrollment System (CHE) nor on the district's payment schedules. The financial costs for educating these students are borne by the school district of residence.

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Low Income Limited English Proficient (LEP) Students (kindergarten through 12) For each student tested where there was a submission of Low Income LEP, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Limited English Proficient (LEP) students (not low income-kindergarten through 12) For each student tested where there was a submission of LEP not low-income, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Effective October 15, 2008 , special education students are not reported according to tier on the Charter School Enrollment System (CHE). Auditors should sample LEP Low Income and LEP Not Low Income categories and follow directions in this chapter for testing low income eligibility as well as LEP eligibility. For LEP students not low income eligible, absence of a valid low income application or an application that does not support low income eligibility is deemed to support the not low income eligible classification.

Special Education Tiers

Effective October 15, 2008 , educationally disabled students are no longer reported by tier . They are reported by grade – elementary, middle school, or high school. The IEP should be reviewed to determine that the student has been classified as special education and that services are provided, but auditors no longer need to review for classification in tiers.

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

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

<u>Grade Level (as of 10/15/09)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

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

<u>Grade Level (as of 10/15/09)</u>	<u>School</u>
11 and under	Elementary School

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12-14
15-21

Middle School
High School

Private Schools

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

NEW

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

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

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

County Vocational School Students

For students in grades 9 to 12, auditors are required to inquire as the status of any students also enrolled in a county vocational program part-time and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment (ADE). The Charter School Enrollment System record of students who were enrolled in the charter school for the entire school year, and who were also attending a vocational program, should reflect an ADE of 0.5. This ADE would be prorated accordingly for students who were only enrolled in the charter school for part of the school year. This reduction should be reflected on the 2009-2010 Final Enrollment Count. Any exceptions should be noted in the Schedule of Audited Enrollments.

Low-Income Students

Obtain the low-income workpapers (by grade) prepared by the charter school and verify that

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there are valid "Applications for Free and Reduced Price Meals" or "Free Milk" on file to support the number claimed. The district and the charter school should have the documentation on file for free or reduced lunch information. Low income eligible students are students eligible for free or reduced price meals or free milk under the National School Lunch Act and the Child Nutrition Act as of the last day of school prior to October 15. A valid application is one which contains all the required information and signatures.

The paperwork should be filed in the charter school and the district. **It is the responsibility of the charter school to provide the district with the necessary documentation for purposes of state aid and submission of ASSA to the state.**

Errors detected in income classifications during the testing of applications for the school lunch fund/child nutrition audit which impact the low income classifications, should be applied to the low-income count when applicable. Remember these students must be on the enrollment count as of the last school day prior to October 15 to be counted. The verified count must reflect all adjustments discovered during the above procedures. If the workpapers do not agree with the State Aid reports, these variances must be reported on the Schedule of Audited Enrollments, as well

It will be necessary to include any items of noncompliance or negative comments in the Single Audit section of the report, along with the appropriate recommendation.

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

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

Program plans for Bilingual/ESL, ESL-only and English Language Services 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 education, ESL or English Language Services programs are provided to students identified as limited English proficient (LEP) by a state established standard on an English language proficiency test. The following students, who are enrolled in the charter school as of October 15, 2009, are eligible to be reported:

- 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)*.

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The number of eligible students must be supported by a listing which includes each student's name and the ID number of the register on which they are enrolled.

Based on the total LEP students reported, the auditor should use the table on page I-3.2 to determine an appropriate sample size. Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15, 2009.

The results of the LEP testing are reported in the Schedule of Audited Enrollments that is required to be included in the Auditor's Management Report.

The auditor should also verify that the charter school submitted a Bilingual, ESL or ELS plan to the department that received approval.

LEP Placement Criteria:

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

2009-2010 English Language Proficiency Tests:

- Language Assessment Scales (LAS), published by CTB/McGraw Hill
- Language Assessment Scales Links (LAS-Links) published by CTB/McGraw Hill
- IDEA Proficiency Test, published by Ballard & Tighe Publishing Company
- MAC II Test of English Language Proficiency, published by 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.

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

Using Multiple Criteria for Program Entry and Exit

Charter schools must use multiple indicators, as specified in code [*N.J.A.C. 6A:15-1.3(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

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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.

Other indicators include the following:

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

Language Assessment Scales (LAS) – CTB/McGraw Hill

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

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

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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

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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 as per *N.J.A.C.* 6A:15-1.3(b) is limited English proficient.

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MAC

II Test of English Language Proficiency -Touchstone Applied Science Associates

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.

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Grades 1-12

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

Kindergarten

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

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

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

To exit 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:

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

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

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

http://www.nj.gov/education/bilingual/ells/score/entry_exit.htm

Comprehensive English Language Learning Assessment (CELLA)

CELLA Proficiency Levels

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

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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.

Additional Audit Procedures on the Enrollment Count:

In addition to the testing of enrollment reported, the public school accountant should also verify that the charter school maintains written internal procedures that provide a description of the enrollment count process. Source documents include signed registration forms, school register, student IEPs, free/reduced lunch forms.

These written procedures should include the following information:

- 1) How the count was taken,
- 2) Who was responsible for compiling the data and completing the enrollment count,
- 3) The various personnel assigned responsibilities for collecting the data
- 4) Procedures for verification of student registration with the local school district prior to enrollment in the charter school.

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- 5) Procedures to ensure that all source documents such as signed registration forms, student transfer cards, “application for free or reduced lunch”, verification for eligibility of bilingual services or IEPs are included in student files.
- 6) Student attendance procedures, including the use of the school register.
- 7) A procedure to ensure that the budget is revised to reflect changes in the charter school revenue.
- 8) Procedures for conducting the two enrollment counts, student additions and deletions, security procedures, location of Charter School Enrollment manual, location of DOE final reports, reporting of information to the district and appropriate follow-up.
- 9) Follow-up procedures to identify student information to be corrected in the subsequent count.

The auditor is required to document any enrollment system findings/deficiencies in the Auditor’s Management Report. If the charter school did not use the sample workpapers or develop an alternative audit trail, the auditor shall include a comment that the necessary verifications and sampling could not be performed and a recommendation that the workpapers be used or an alternative audit trail (which is acceptable to the auditor) be established for future audits. The auditor should include a comment and recommendation for any differences noted on the Schedule of Audited Enrollments. If the errors result in an overclaim of charter school aid , the auditor is required to post an adjustment.

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ADDITIONAL PROCEDURES FOR SCHOOL BASED MEDICAID REIMBURSEMENT PROGRAMS

The State of New Jersey, Department of the Treasury administers two separate and distinct Medicaid school reimbursement programs: Direct Service – Special Education Medicaid Initiative (SEMI) and Medicaid Administrative Claiming (MAC). The Medicaid Administrative Claiming initiative allows for the recovery of costs associated with a wide range of activities eligible for administrative claiming.

Related services, evaluation services, and specialized transportation are SEMI activities for which a charter school may submit claims. A student’s IEP is the beginning documentation for determining needed services. In addition, charter schools are required to have all necessary documentation on file for review to support all claims for services performed as indicated in 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 NJDOE website (Special Education/Information for Districts and Parents): <http://www.nj.gov/education/specialed/info/>.

The Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to provide billing services for on behalf of charter schools. Effective October 1, 2005, charter schools began documenting services via PCG’s third party administrator system. PCG’s third party administrator system is a web based application used to document certain related services (e.g. occupational therapy, physical therapy, nursing, speech therapy, and counseling) and evaluations, when delivered by Medicaid qualified practitioners. See Chapter 5, “Service Documentation Requirements” for the documentation required when using PCG’s third party administrator system. The primary contact at PCG is Jessica Rod (609-275-0250, ext. 3931, email jrod@pcgus.com) or Bryan Hawkom (800-210-6113, email bhawkom@pcgus.com).

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

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

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

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BUDGET & TRANSFERS

The Budget

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

Budget Transfers

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A charter school board of trustees 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 trustees may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers made by the chief school administrator shall be reported to the board, ratified and duly recorded in the minutes subsequent to meeting of the board, but not less than monthly.

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

No transfers should be made from the general fund to the special revenue fund for expenditures in excess of the grant budget. In this instance, the Board's contribution to the program should be coded to the applicable general fund expenditure account, with the exception of benefits.

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

- (a) Capital Reserve Fund
- (b) Items classified as current expenses
- (c) Items classified as capital projects
- (d) Interest and debt redemption charges
- (e) Items classified as general fund except to other items so classified.

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, transfers of surplus may be made at any time by board resolution and may be made within the original annual budget. Transfers of appropriations may be made by board resolution at any time during the fiscal year.

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Interfund balances

Charter school-wide statements (accrual basis)

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

Funds statements (modified accrual basis)

For governmental funds, interfund transfers should be reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers. In proprietary funds, revenues from transfers should be reported separately after non-operating 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, non-major governmental funds in the aggregate, non-major 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.”

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BIDS & CONTRACTS/PURCHASING

Bids & Contracts

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 Department of Community Affairs (DCA) and provides guidance related to public procurement practices and law. Matters specific to Public School Contracts Law include:

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

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 trustees are urged to follow its requirements to provide a higher level of contract award integrity by specifying the procedure for contracting units to select the lowest responsible bidder in instances where alternates or base bids with options are used for public works projects. It requires the bid specification to set out clear criteria or a procedure the governing body will use to select the lowest responsible bidder, given the amount of funds available for the project. 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 Department of Community Affairs (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 trustees 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% below that available under the State contract. Rather, the bill provides that the purchase

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order relating to the contract must include a notation that the item was purchased at least 10% 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 charter schools received LFN 2007-12 last year with updated information regarding prevailing wage laws (see pg 2): <http://www.state.nj.us/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 charter schools 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 the new law allows charter school boards to adopt their own pay-to-play laws. 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 Notice 2006-3 provides guidance to assist boards of trustees 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.

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 Department of Community Affairs (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/psc1.

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

N.J.S.A. 18A:18A-2 contains definitions for terms used throughout *N.J.S.A. 18A:18A-1 et seq.* and was amended under P.L. 1999, c.440. 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 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. The statute was amended in 1999 to provide for an even higher threshold when there is a “Qualified Purchasing Agent” in the charter school as defined at *N.J.A.C. 5:34-1.1* and certified upon

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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 and was raised to \$21,000, effective July 1, 2005. For charter schools with a qualified purchasing agent, the bid threshold was raised to \$29,000.

“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 (\$21,000 effective July 1, 2005) the contract may be awarded by a purchasing agent when so authorized by resolution of the board without public advertising for bids and bidding therefore, except that the board 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 may establish that the bid threshold may be up to \$25,000 (\$29,000 effective July 1, 2005). 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 trustees to disqualify a low bidder of any board 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 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 may, by resolution approved by a majority of the board and subject to subsections (b) and (c) of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of trustees finds that any board, or in the case of a contract for a school facilities project, the New Jersey Economic Development Authority, has had prior negative experience with the bidder within the past 10 years, as reported in a contractor evaluation submitted pursuant to *N.J.S.A.* 18A:18A-15 or in a school facilities project performance evaluation submitted pursuant to regulations of the Department of the Treasury or section 62 of P.L. 2000, c 72 (C.18A:7G-36) as appropriate.”

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

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

N.J.S.A. 18A:18A-4.4 provides boards of trustees the authority to pass a resolution authorizing the use of competitive contracting. “In order to initiate competitive contracting, the board shall pass a resolution authorizing the use of competitive contracting each time specialized goods or services enumerated in section 45 of P.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;
- vending machines for food and drink.
- Goods/services for which the lowest of three quotes is at least 10% less than the state contract price (see subsection (e) for award requirements)

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

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

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

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

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

N.J.S.A. 18A:18A-21 addresses the requirements for advertising bids, and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. P.L. 2005, c.191 amended *N.J.S.A.* 18A:18A-21 and makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids. P.L. 2007, c. 4 (No-Bid Monday Law) prohibits the receipt of bids on Mondays or any day following a State or Federal holiday. The law was signed on January 17, 2007 and amended *N.J.S.A.* 18A:18A-21(a). Auditors and charter school administrators should review the Local Finance Notice at www.nj.gov/dca/lgs/1fns/07fns/2007-4.doc for further guidance.

N.J.S.A. 18A:18A-22 is establishes a list of criteria as bases on which a board 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, 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 by resolution, all contracts that are in the aggregate less than 15 percent of the bid threshold may be awarded by the purchasing agent without soliciting competitive quotations.” This section should be referenced by the auditor for more details on these and other changes.

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

Pursuant to *N.J.S.A.* 18A:39-3, the threshold for bidding of transportation contracts is \$17,200. *N.J.S.A.* 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 board adopts a resolution complying with a set of conditions. The cost increase in extended contracts is limited to index

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rate percentages as posted by DCA at www.state.nj.us/njded/psc1. No contract can be extended so that it runs more than a total of five consecutive years.

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

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

N.J.S.A. 18A:18A-45 addresses manner and method of sale of personal property, and requires, in addition to the board resolution, a sealed bid or public auction process; it also provides that if the

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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.

Review of Purchase Orders

Auditors should refer to the Hotline issued by the Department on September 16, 2003 and available at the website: <http://www.nj.gov/njded/finance/fp/audit/0304/po.pdf>. A copy is also in Section I, Chapter 8 of The Audit Program.

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

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

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

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be shown in the fiscal year-end 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, charter schools must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the fiscal year-end 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 fiscal year-end balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund. (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). Charter school auditors must review the lists and their related documentation and challenge the propriety of the charter school's classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

(Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Section 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 fiscal year-end. The issuance of blanket purchase orders at any time

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CHAPTER 5

during the year should be reported by the auditor as a finding and recommendation in the Auditors' Management Report.

Credit Cards

Use of credit cards for purchase of goods or services is prohibited. Statutory requirements direct how boards of trustees may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by charter schools must comply with *N.J.S.A. 18A:18A-1 et seq.*, the Public School Contracts Law. The payment of claims by a charter school must 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. 18:19-13* and *N.J.A.C. 6A:23A-16.8*, a charter school may establish a petty cash fund at the beginning of each fiscal 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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CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

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

N.J.S.A. 18A:4-14 requires charter schools to 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 2 prescribes further regulation regarding the accounting.

N.J.A.C. 6A:23A-16.2(2)f requires that the charter school management 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(2003 Edition)*. This updated Chart of Accounts (COA) can be found on the web site <http://www.nj.gov/njded/finance/fp/af/coa/> and was effective July 1, 2004.

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 charter school for these summarized special projects. If a charter school 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.* 6A:23A-16.10(a)3 states that when a board of trustees 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 charter school 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 charter school's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A: 4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records, but instead gives general descriptions of each in the manual. Charter school auditors must be adequately familiar with the publication to perform the annual audit.

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

N.J.A.C. 6A:23A-16.6 requires that charter school board of trustees which contract for electronic data processing bookkeeping services obtain an audit of the internal controls of the service company or agency as prescribed by *Statement of Auditing Standards No. 70*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

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CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

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* (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* (C-1) reflects the GAAP modified accrual basis for revenues.

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

The original budget as well as the final approved budget as of June 30th must be reported in the budgetary comparison schedules. The variance is required by NJ DOE 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 (2003 Edition)* and the terms and conditions of the grant award. New accounts were added to the *Chart of Accounts* effective for July 1, 2009, but charter schools were given the option to adopt the new coding in 2008-2009. Auditors should refer to Appendix F “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2009-10 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2009-10 Budget Guidelines* in the section “Detailed Appropriations Grid” and it should also be used as a reference tool.

The auditors’ 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 *2009-10 Budget Guidelines*). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23A-16.2(f)* and noted instances must be reported in the Auditor’s Management Report. Auditors are directed to test the proper coding of expenditures during their review of the charter school’s internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

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CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

Reclassification of Miscoding

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

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

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

Specific to the charter schools, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time, enabling charter schools to be in compliance with monitoring standards and maintain comparability to public school financial data. All revenue data and expenditure data items and their classifications are explained in the Budget Summary Key of the Charter School Application. There are four major expenditure categories to be reported in the general fund: Instruction, Administration, Support Services, and Capital Outlay. These four categories are required in reporting expenditures in the budget form and the CAFR. For additional references, refer to the State

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Department of Education’s publication entitled *The Uniform Minimum Chart of Accounts for New Jersey Public Schools*, which is available from the publication office. The charter school is encouraged to use the account structures and codes referenced in this publication, but it is not considered mandatory. What is mandatory is the reporting of costs in the detail as prescribed in the 108 line item budget summary.

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 be reported in the schedules of expenditures of federal awards and state financial assistance.

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

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

Auditors should refer to *N.J.A.C. 6A:23A-16.10* for detailed controls that charter school boards of trustees 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.

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RESERVED

June 30, 2010

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CHAPTER 8

YEAR-END PROCEDURES

Closing Out for GAAP

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

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

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

General Procedures for All Funds (Other than Special Revenue)

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

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

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

The first step is to identify those purchase orders for which the goods/services have been received/rendered yet payment has not been made prior to year- end. These items must be charged as expenditure against the current year budget and established as an accounts payable at year-end. 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

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

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

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

3) Analyze Balance Sheet Account Balances:

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

The presentation of prior period adjustments under GAAP is not made directly to fund balance. The correction of immaterial errors is recorded as miscellaneous income or expenditures of the current year. The correction of material errors is shown in the balance sheet as a prior period adjustment, with a restatement of the opening beginning year 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 (pre-closing) fiscal year-end balance in the fund balance account should equal the fiscal year-end balance per the prior year audit.

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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 (A-1)* . Similarly, the charter school 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 (A-1)*.

Charter school staff will need to prepare a conversion from the modified accrual fund balance presentation in the *Governmental Funds Balance Sheet (B-1)* to Net Assets presentation in the *Statement of Net Assets (A-1)*.

June 30, 2010

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State of New Jersey

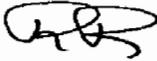
DEPARTMENT OF EDUCATION
PO Box 500
TRENTON, NJ 08625-0500

JAMES E. MCGREEVEY
Governor

WILLIAM L. LIBRERA
Commissioner

HOTLINE

TO: Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants

FROM: Richard Rosenberg 
Assistant Commissioner, Division of Finance

SUBJECT: Year-End Encumbrances

DATE: September 16, 2003

For the current 2002-03 fiscal year audit as well as future audits, all public school accountants are asked to give utmost consideration to encumbrances on the school district's books at June 30, 2007 through a thorough review and analysis of open purchase orders.

Open purchase orders at June 30, 2007 should be classified into the following two categories for review and reclassification:

1. Category one represents purchase orders for which the goods have been received or the services have been rendered at June 30th that have not been paid. These purchase orders must be expensed in the current audit period, the related encumbrances reversed, and a liability (accounts payable) established. If the invoice has not been received the amount must be estimated. In accordance with GAAP, an expenditure is recorded when goods are received or services are rendered.
2. Category two represents purchase orders which will be honored in the subsequent year. These purchase orders will be rolled over into the next fiscal year and will be shown in the June 30th general fund balance sheet as a reserve for encumbrances. Per NCGA Statement 1, paragraph 91 "encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result **if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.**"

These purchase orders must be checked for validity, which means, the purchase orders must have a valid contractual agreement (i.e. contain an actual order of goods or services) in place at June 30, 2007. Blanket purchase orders do not constitute valid purchase

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Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants
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orders. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year-end.

In reviewing the 90-day cut-off period during the year-end audit, purchase orders that existed at June 30, 2007 but were not liquidated by September 30 should be canceled and not included in the June 30 reservation of fund balance, with the exception of capital or other long term projects. Open purchase orders for items that are: 1) no longer considered necessary; 2) not substantiated with a valid contract; or 3) aged (regardless of materiality) and have been on the books for over 90 days should also be canceled and not included in June 30 reservation of fund balance.

In addition, per review of the agreed upon procedures performed by several accounting firms for the Abbott school districts that were recently concluded, on several occasions it was noted that expenditures for 2003-04 were being improperly encumbered in the 2002-03 fiscal year. Districts may not have open encumbrances for items related to the next year such as salaries, insurance premiums, etc.

District's account payable, accruals and year-end expenditure cut-off should be thoroughly reviewed with attention given to ensure that valid expenditures for the current year are captured and expenditures for the subsequent year are recorded in the proper accounting period.

For further guidance on year-end reporting and encumbrances please review, Section I – General Compliance, Chapter 5, “Bids & Contracts/Purchasing” and Chapter 8, “Year-End Procedures” of the 2006-07 Audit Program.

Any question related to this hotline memorandum should be addressed to Beth Brooks of the Office of Fiscal Policy and Planning at 609-633-2766, or via email at beth.brooks@doe.state.nj.us.

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c: Gordon MacInnes

Albert A. Monillas

J. Michael Rush

Judith Weiss

Glenn Forney

Beth Brooks

County Superintendents

County School Business Administrators

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YEAR-END PROCEDURES

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

To Cancel Purchase Orders:

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

To Accrue Revenues:

Dr. Applicable Accounts Receivable (XX-1XX)
Cr. Revenues (XX-302)

Record Revenue (With the appropriate entries being 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.

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As an example, after recording the adjusting entries, the general fund trial balance would appear as follows:

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

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

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

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

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

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

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

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

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

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Other Issues/Entries

Internal Accounting Records

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

Capital Assets and Long Term Debt

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

- ♦ School wide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the charter school *Statement of Net Assets* (Exhibit A-1). Depreciation is reported in the *Statement of Activities* (Exhibit A-2). Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year. This includes compensated absences. Charter Schools and auditors should refer to GASB Codification C60 for guidance on calculating the liability for compensated absences and reporting the amount due within one year separately from the amount due in more than one year in the *Statement of Net Assets*.

- ♦ Fund Financial Statements (Modified Accrual Basis) – charter schools will continue to report capital outlay in the governmental fund statements. Liabilities for compensated absences are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditures should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. Charter schools and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

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Opening Balances

At the beginning of each year, the approved 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 at beginning of year:

- 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 page I-8.12 of this document 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.

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

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

Charter schools must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this document and make the necessary entries as illustrated on page I-8.7 to cancel any unnecessary orders and to reverse the reserve for encumbrances and record the expenditures and the accounts payable related to the unpaid orders for which the charter school has received goods and services as of year-end. An additional is needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. 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 prior year-end encumbrances less current year-end 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 school wide *Statement of Net Assets* and the *Statement of Activities* (accrual basis) include the special revenue fund in the governmental activity column. The modified accrual basis special revenue fund is included in the governmental funds *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances*. The *Budgetary Comparison Schedule – Special Revenue Fund* will reflect the revenues and expenditures of this fund on the budgetary basis.

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

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

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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 year-end, an entry is also needed to recognize the encumbrances outstanding at year-end 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.)

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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 year-end 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 close-out 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 the 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 year-end, 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 current year to the prior year account the entry would be:

Dr. Reserve for Encumbrances - Current Year (20-753)
 Cr. Reserve for Encumbrances - Prior Year (20-754)

Grant Year

Grant revenues and expenditures must be identifiable based on award year and as to original, summer, or carryover allocation. The chart of accounts is structured to allow for unique program codes to be assigned to the various grant allocations that may be running simultaneously. Although specific program codes are not listed for summer programs, charter schools must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, charter schools should remember to budget and account for grant activity in the appropriate program codes, making

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adjustments to the revenue and expenditure subsidiary ledgers to account for budget revisions necessary as a result of the shift of funds between the original, summer, and carryover allocations. This information is necessary for the completion of the Schedules of Financial Assistance included in the Single Audit Section of the CAFR. Chapter 9 of the *Technical Systems Manual* provides an illustration of the shift of funds into a carryover period. The same entries apply to the shift of funds to a summer program.

All Funds

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

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SECTION II – SPECIFIC COMPLIANCE**CHARTER SCHOOL BOOKKEEPING**

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all charter schools and is authorized to compel its use. (*N.J.S.A.* 18A:4-14 and *N.J.A.C.* 6A:23A-16.1)

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition) (COA) was originally published in 1992 with the latest update effective July 1, 2004. The COA was again revised in October 2008 to incorporate changes issued in annual budget guidelines, software vendor letters through the distribution of accounting memos since 2004 and as a result of the passage of The School Funding Reform Act of 2008 (SFRA). The revision is effective July 1, 2009 but charter schools had the option to adopt the changes prior to then. The revised COA is available on the web site <http://www.nj.gov/njded/finance/fp/af/coa/>.

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

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

Governmental funds

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

Proprietary funds

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

Fiduciary funds

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

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Board Secretary and Treasurer Reports

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

In accordance with *N.J.S.A.* 18A:17-36, the treasurer shall report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. The monthly board secretary and treasurer reports are to be reconciled on a monthly basis.

Cash Reconciliation

The cash accounts must be reconciled. Reconciliation of payrolls and interest accounts are to be made in all charter schools maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the charter school.

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

Petty Cash Funds

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

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

Summer Payment Plans

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

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SAS #70 Reports

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards (SAS) #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system". If SAS #70 is applicable, the service organization auditor would issue one of two types of reports, depending on circumstances and requirements:

- Type I – Report on Policies and Procedures Placed in Operation. This report may be an effective and efficient way for the charter school auditor to gain an understanding of the internal controls of the service organization.
- Type II – Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the charter school's auditor may choose to assess control risk below the maximum for financial statement assertions related to service organization transactions. This is a decision made by the charter school auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the *Government Auditing Standards* (Yellow Book 2003 Revision) available electronically at the web site: <http://www.gao.gov/index.html> for further guidance on internal controls.

Third Party Disbursements

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

The rules for third party disbursements can be found in *N.J.A.C. 5:30-15* et seq. Charter school boards of trustees are advised to review the rules prior to engaging a third party disbursement organization. *N.J.A.C. 5:30-17* et seq., Electronic Disbursement Controls for Payroll Purposes can be found at http://www.state.nj.us/dca/lgs/fiscal/generalpubs/payroll%20agency_%20handbook_1.pdf.

Investments

Several statutes govern permissible investment of school monies by New Jersey charter schools. *N.J.S.A. 18A:17-34* gives the treasurer of the charter school the authority to deposit school monies in any bank or banking institutions of this State designated as a depository of school monies. Under *N.J.S.A. 17:9-41* et seq., the Governmental Unit Deposit Protection Act (GUDPA), a charter school may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

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

N.J.S.A. 18A:20-37 provides for the specific types of securities that the board of trustees can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a charter school’s name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investments in the Department of Treasury for investment by charter schools. The Division does not publish a listing of approved investments, but charter schools may request approval of a specific security by letter sent to the following address:

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

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

Further information on GUDPA or on banking institutions may be found at the department of Banking and Insurance web site http://www.state.nj.us/dobi/division_banking/depositories/gudpa.htm . A charter school which is unsure whether the bank/institution is certified as a depository should request from the bank/institution a copy of the “Notification of Eligibility” or may contact the Department of Banking and Insurance.

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

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

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

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

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

Revenues and Receipts

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

Tuition

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

Reporting On-Behalf payments

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

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Charter schools should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. The current year amount equals total cash reimbursement received during the current year less the prior year-end receivable amount plus the current year-end receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Charter schools are not required to include these amounts in their annual school budgets. These amounts should be excluded from the Type A programs threshold calculation. For further guidance, auditors should refer to Section II-SA.1, Federal and State Audit Requirements, of this Audit Program.

Pensionable Wages

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

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

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

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

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

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Refunds

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

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

The Schools and Libraries Universal Service Fund, known as the “E-rate” was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. Charter Schools will be notified regarding actual funding. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due, or to accounts payable if unpaid at June 30, 2010. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at <http://www.sl.universalservice.org/menu.asp>.

Cancellations

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

Travel Expenditures

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

Sale and Lease-back Contracts

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

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

Excess Surplus

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

Fund Balance Classifications

The proper presentation of fund balance is an important reporting issue. Charter schools should use the fund balance classifications reported at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). Fund balance in this Schedule reflects the modified accrual basis with the exception of the last state payment. Charter schools must include a Recapitulation of Fund Balance at the end of this Schedule with sufficient detail for a reviewer to determine the nature of any reserve or designation. See the illustration at the end of this chapter and also the guidance in Section III-5 on Audsum.

Fund balance in the governmental funds *Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and should be grouped under two main categories – reserved and unreserved. In the accrual basis *Statement of Net Assets* (A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and charter school staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

Auditor's Note – No appropriation of surplus after June 30, 2010 is to be reflected in the June 30, 2010 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Reserved fund balance classification should only be for encumbrances, or for state or other government imposed legally reserved fund balance restrictions. Beginning in 2003-04, all other legal reserves require departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve (i.e. why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. Charter Schools should submit requests to the Assistant Commissioner of Finance no later than September 30 if approval is required for the audit period under review.

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Fund balance – reserved for:

- The **reserve for encumbrances** represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30th. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum diskette for the reserve for encumbrances at fiscal year end for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Charter schools should not be encumbering goods and services that relate to the subsequent year. The Hotline is reproduced in Section I-8 of this Audit Program.
- The **reserved fund balance-legally restricted account**, which is shown in the reserved fund balance equity section, is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from sale/lease-back reserve N.J.S.A. 18A:7F-7(e).

Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner of Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, legally established capital, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. An example of other government imposed legal restrictions includes court ordered judgments. **The request for approval should be submitted by the charter school to the Assistant Commissioner of Finance by September 30, 2010 for the June 30, 2010 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific “constraint imposed on the use by external parties or by laws or regulations of other governments). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

Under GAAP, few items would constitute a legal reserve. Per GAAP, the basic concept of a legal reserve is that it is not unilaterally established by the charter school and it cannot be removed with the consent of those imposing the restriction or through formal due process. Charter schools do not have the authority to advance fund (accumulate resources) for a potential future liability by setting aside an amount as a legal reserve. Loss contingencies are not legal reserves, but instead would be recorded as accrued liabilities if a loss is probable and reasonably estimable. For funds statements, only the amount due and payable with current resources is accrued. For the charter school-wide statements, the full amount is accrued. Contingent liabilities not required to be accrued should be disclosed in the notes to the financial statements. All significant facts with respect to the situation should be disclosed. GAAP guidance is available in the GASB Codification chapter “Claims and Judgments” (C50).

The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is

SECTION II – SPECIFIC COMPLIANCE
FUND 10 - GENERAL FUND

provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2010-11 “Charter School Budget Statement” and line 1660, “Amount Budgeted in FY 2010-11” in column 6, General Fund (Reserved) Legal Reserves of the Recapitulation of Balances. Amounts not anticipated in the 2010-11 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2010-11 budget.

Fund Balance – Unreserved

All other fund balance is considered **unreserved**. Charter schools may reflect management’s intent for use of the unreserved fund balance as separate lines in the equity section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balances should be presented as unreserved – undesignated. The amount of unreserved fund balance that has been included in the upcoming year’s general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year’s expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet, do not include it as part of the unreserved designated for subsequent year’s expenditure amount. **Separate lines are provided in the Audsum data collection for unreserved – undesignated general fund balances and unreserved fund balance that is designated for subsequent year’s expenditure. Include on the designated fund balance line only those amounts which were included in the 2010-11 certified budget as budgeted fund balance on lines 121, 122 and 123 that have not already been included on a reserved fund balance line. Include in the unreserved-undesignated line all other unreserved fund balance.**

SECTION II – SPECIFIC COMPLIANCE
FUND 10 - GENERAL FUND

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SECTION II – SPECIFIC COMPLIANCE
FUND 20 - SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A: 66-90 requires that each charter school reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. Expenditures for teacher salaries made by charter schools from ARRA State Fiscal Stabilization Fund – SFSF are deemed to be considered State support for the purposes of reimbursement of fringe costs required under *N.J.S.A.* 18A:66-90 and therefore are exempted from the requirement to reimburse TPAF and FICA. ARRA State Fiscal Stabilization Fund includes the Educational Stabilization Fund (ARRA – ESF - fund 16) and the Government Services Fund (ARRA – GSF – fund 17). The reimbursement, together with supporting documentation prescribed by the Director of Pensions, must be remitted to the Department of Education within 90 days after the close of the fiscal year.

Auditors should refer to the updated letter and downloadable form on the NJDOE website:

<http://www.nj.gov/education/finance/ba/tpafmemo.pdf>

<http://www.nj.gov/education/finance/ba/tpafform.pdf>

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

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

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SECTION II – SPECIFIC COMPLIANCE
FUND 30 - CAPITAL PROJECTS FUND

Capital Projects Fund

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

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

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

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

SECTION II – SPECIFIC COMPLIANCE
FUND 40 – DEBT SERVICE FUND

This section not applicable to charter schools

SECTION II – SPECIFIC COMPLIANCE
FUND 50 – PERMANENT FUNDS

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

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

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

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

Charter schools that elect early implementation of GASB Statement No. 54 must report permanent fund principal in the nonspendable fund balance category and additional accumulated balances in the restricted fund balance category.

SECTION II – SPECIFIC COMPLIANCE
FUND 50 – PERMANENT FUNDS

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SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

Proprietary Funds

Proprietary funds are used to account for charter school activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a charter school regardless as to whether the operations include services provided to outside parties that are offset by revenues. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Guidelines for charter schools using the internal service fund to account for shared services are outlined in *N.J.A.C. 6A:23A-16.11*.

Enterprise Funds:

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

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

Non Mandated Transportation – Enterprise Fund:

In accordance with *N.J.S.A. 18A:39*, public schools are prohibited from using public school funds to pay for non-mandated transportation (courtesy busing) of students. This service must be fully supported through fees collected from participating families or fundraising revenue. Transfers from the general fund to cover deficits in this fund are prohibited. Auditors are advised to review all invoices and payroll accounts to ensure that all non mandated transportation-related expenditures are properly accounted for in the Enterprise Fund. For additional information regarding eligibility for transportation, refer to the following website: <http://www.state.nj.us/education/parents/transportation.htm>

Auditor Note: Total non mandated transportation costs paid with public school funds must be treated as a disallowed cost.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

Food Service - Enterprise Funds

The Board of trustees is considered the Local Education Agency (LEA), and is responsible for the administration and operations of the School Food Authority (SFA). Therefore, income from: daily cash sales, prepayment of meals, special functions, vended contracts, rebates, discounts, credits from vendors, and state and federal reimbursements, are school monies. As such, these funds must be under the control of the Treasurer of School Moneys and are subject to the state's school laws and federal regulations. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties but they are not permitted under state law to administer or hold school funds

Boards of trustees may contract with food service management companies (FSMC) to equip, supply and operate cafeterias without profit to the charter school pursuant to *N.J.S.A.* 18A: 33-3. Every contract for the services of a food service management company should meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations [7 CFR Parts 210, 215 and 220]. All charter schools rebidding their FSMC Contract must rebid their new contract pursuant to the Public School Contracts Law, *N.J.S.A.* 18A:18A-1 et seq. as amended and pursuant to 7 CFR 3016.36 .

The most widely used contract method in New Jersey is referred to by the *Accounting Guide for Government Contracts* as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board is liable for the reimbursement of all costs incurred. Regardless of the contract method, the charter school management is considered the School Food Authority. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the School Food Authority.

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

1. The income from: daily cash sales, prepayment of meals, special functions, vended contracts, rebates, discounts, credits from vendors, and State and Federal reimbursements must be under the control of the treasurer of school moneys in any bank or banking institution of this state designated by the charter school management as a depository of school moneys. Such funds may be deposited in the Board's general operating account. A separate food service account is not required, (*N.J.S.A.* 18A: 17-34), however, receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records, in accordance with the Uniform Minimum Chart of Accounts (2003 Edition).

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

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

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

When the food service management company purchases specifically for the charter school, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (sample 1 in Section II-60.5). If the food service management company purchases food in bulk for a number of charter schools, it may use the above method allocating invoice amounts between charter schools based on the percentage of each charter school's student enrollment (or participation) to the total enrollment for all schools (sample 2 in Section II, 60.6). It may also use a per-meal cost calculation based on the total amount of the invoices divided by the total meals served to all charter schools. Each charter school's pro-rata share of the costs would be the per meal cost multiplied by the meals served in each charter school (sample 3 in Section II, 60.8)

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

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

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

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

SAS #70 Reports

In accordance with SAS #70, as amended by SAS #88, charter school auditors may evaluate the internal controls of a food service management company by relying upon the opinions of a "service auditor" of the food service management company's internal control system. To that end, Charter Schools must only contract with food service management companies that can provide an audit opinion on said company's system of internal control. All food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 1

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

October 15, 200X
 Invoice #123456

Any Charter School
 Highland Street
 Old Town, NJ 08111

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

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

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

Franklin Chief
 President
 Foodland Food Services

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 2 (2 of 2)

NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/200x	Bakeland	\$208.09	\$148.94	\$293.65	\$405.61	\$1056.29
12555X	9/2/200x	Murray's	689.23	493.31	972.62	1,343.48	3498.64
		Meats					
431182	9/3/200x	Polly's	176.45	126.29	249.00	343.94	895.68
		Produce					
218812	9/7/200x	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
6988	9/7/200X	Bakeland	118.77	85.01	167.61	231.51	602.90
12682D	9/7/200x	Murray's	692.86	495.91	977.75	1,350.55	3,517.07
		Meats					
431906	9/13/200x	Polly's	112.21	80.31	158.34	218.71	569.57
		Produce					
219601	7/13/200x	Dan's Dairy	477.38	341.68	673.66	930.52	2,443.24
		Total	\$3,107.21	\$2,223.95	\$4,384.80	\$6,056.67	\$15,772.63

No. of Students Participating	Percentage
New City - 630	19.7%
Upper - 452	14.1%
Lower - 889	27.8%
Middle - 1,230	38.4%
Total - 3,201	100.00%

June 30, 2010

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 3 (1 of 2)

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

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

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

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

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

Franklin Chief
President
Foodland Food Services

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 3 (2 OF 2)

NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION

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

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

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

Child Nutrition Program Requirements

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

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

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

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

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

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

NOTE:

Eligibility is also required to be determined through the Direct Certification Process. Please refer to the April 9, 2009 memo on Direct Certification Workshops and the July 7, 2008 Direct Certification memo. Copies of these memos should be available at the charter school. Schools can directly certify students as eligible for free school meals by uploading their student database via the SNEARS web-based system and the date is matched against the data from Food Stamps/TANF for the selected municipalities. Beginning with school year 2009-2010, direct certification eligibility can be extended to any other students living in the household; see memo dated September 8, 2009, “Important Changes in Determination of Eligibility for Free School Meals/Milk”.

Schools participating in Provision 1 or 2 are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the July 21, 2009 Memo, “Annual Application Process for Provisions I and II

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

- Household applications are the only eligibility applications in use for this school year. Since a foster child is considered a family of one, he/she should be the only child listed on a separate household application. For example, a family with five children (3 of their own and 2 foster children) is required to complete three household applications – one application inclusive of their three children, plus individual applications for each of the two foster children.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the charter school attend a Determining Official Workshop).

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

- Household applications must be on the correct state approved format for the school year being reviewed.
- Effective for the 2009-2010 school year, if an application has food stamp or TANF case numbers for at least one student residing in the household; free eligibility can be extended to all students living in the household.
- Eligibility determination of a household application is effective for the entire school year with the exception of an income listed as zero. Zero income applications are placed on temporary status and must be updated as additional documentation is received by the charter school.
- Every household member listed on the application must either have an income reported **or** the box indicating zero income for that individual must be checked. Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, or monthly. If more than one frequency is provided the total household income must be converted to annual.
- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. Charter Schools must designate an Educational Agency Liaison for the homeless. This liaison and the Migrant Coordinator are the only approved sources of supporting documentation for the application of homeless, migrant or runaway children.

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

A sample Schedule of Meal Count Activity is presented on page III-4.22 of this Audit Program and instructions for completion are as follows:

1. Most column headings are self-explanatory.
2. When less than 100% of the meals claimed for a program in any category (Paid, Reduced or Free) have been tested by the auditor, eligibility application exceptions/reclassifications discovered must be factored into the “Verified” column over 180 operating days or, where known, the exact number of meals served to the reclassified student. For example, an auditor has tested less than 100% of meals claimed for the National School Lunch program and has found an error resulting in the reclassification from the “Free” category to the “Reduced” category for one student. The reclassification must be reflected in the “Meals Verified” column over 180 operating days or the number of actual meals served

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

to that student, and will result in an adjustment to column 8 in both the “Free” and “Reduced” categories.

3. Column six (Difference) is the difference between the Meals Tested column and the Meals Verified column for each program.
4. Column eight is the over/underclaim calculated as the Difference times the Rate for each program. A net over/underclaim for all meal programs combined is presented at the bottom of the (Over)/Under Claim column..

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

NOTE: Schools participating in the Seamless Summer Option feed all children at the free rate of reimbursement.

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

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

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

- c) “Error prone” applications are those applications characterized by:
 - Annual income within \$1,200 of the annual income guidelines
 - Monthly income within \$100 of the monthly income guidelines
 - Twice a month income within \$50 of the twice a month income guidelines
 - Every two weeks income within \$50 of the every two weeks income guidelines
 - Weekly income within \$25 of the weekly income guidelines.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

- d) Fractional sample size calculations are always rounded upward, increasing the sample size. Example: 340 approved applications are on file at October 1st. ($340 \times 3\% = 10.2$ applications; sample size must be 11).

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

All internal verification activity must be completed by November 15 of each school year. The charter school must electronically report the results of their verification activities to the Bureau of Child Nutrition Programs by March 1. Failure to complete verification will result in reimbursement being withheld by the Bureau. The auditor's review of eligibility applications should include a review of the verification file to ensure that the verification process was completed on a timely basis.

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.
4. A School Food Authority is required to maintain a nonprofit School Food Service. The nonprofit status of the School Food Service is determined by evaluating net cash resources. Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds, or other negotiable securities. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures for the School Food Authority's nonprofit school food service, the State Agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:15)
5. The auditor should comment on whether Food Distribution Program processed and warehoused U.S.D.A. commodities were received. If the charter school is utilizing a FSMC to provide meals, review evidence that the market value of Food Distribution Program processed and warehoused commodities was credited to the charter school. Year to date amounts must be provided.
6. Auditors should verify that financial arrangements (i.e. fee calculations, presentation of invoices, and other provisions) in the Food Service Management (FSMC) contract have been complied with; if not, cite exception:

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

- a) Is fee calculated correctly?
 - b) Is FSMC paying processing and warehouse invoices on a timely basis?
 - c) Are the actual operating results reported in the year end operating statement indicative of the FSMC having satisfied the operating results guarantee stated in the contract/addendum?
 - d) Are the FSMC fee(s) stated in the contract/addendum in agreement with the actual fees incurred and reported in the year end operating statement?
7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after the 60 days without proper verification. However, payment can be considered if the underclaim is verified in an audit or administrative review. **Auditors are instructed to verify any underclaims (identify in the Schedule of Meal Count Activity) as a result of late revisions.** Please note that such payment is subject to approval.
8. Requirements for contracts with FSMC: Federal procurement regulations published in the Federal Register, Vol. 72, No. 210, October 31, 2007) required that all base year contracts executed for 2008-09 comply with the new regulations. The new regulations allowed a one year exemption for contracts that were being renewed for the 2008-2009 school year. However, for the 2009-2010 school year any charter school that renewed for 2008-2009 must have entered into a new base-year contract even if they are within the 5 year cycle that would have ordinarily allowed them to renew the contract again.
- The state agency prototype that was approved as part of the annual FSMC registration process must be used in its entirety
 - FSMC must either identify allowable and unallowable costs, OR must exclude all unallowable costs and certified that only allowable costs are submitted to the charter school for payment.
 - FSMC must identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the charter school for payment. FSMC determines in contract the frequency of reporting such information (may not be less than annually).
 - FSMC must identify the specific method(s) used to report discounts, rebates and other applicable credits that are not reported prior to conclusion of the contract.
 - FSMC must maintain documentation of costs and discounts, rebates, and other applicable credits and must furnish such documentation upon request to the charter school, state agency or USDA.
9. For Charter Schools that selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
- Charter School must have a signed Child Nutrition Program addendum for the FFVP.
 - Costs charged must be allowable according to rules of program outlined in the USDA FFVP Program Handbook that can be accessed at <http://www.fns.usda.gov/cnd/FFVP/Resources/FFVPhandbookFINAL.pdf>
 - Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.

The following memorandums and attachments for the school year 2009-10 are available at charter school offices to be referenced by the auditor:

SECTION II – SPECIFIC COMPLIANCE
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- 1) January, 2010 Business Administrators with FSMC Responsible for Meal Programs Using USDA Donated Commodities
- 2) March 24, 2008 – New Procurement Regulations Affecting Food Service Management Company Contracts
- 3) December 3, 2008 – Food Service Management Company (FSMC) Regulation Changes/Upcoming Privatization Trainings
- 4) New Jersey Directory of Registered Food Service Management Companies/Regulation Changes for 2009-2010 Base Year Contracts
- 5) March 20, 2009 – Seamless Summer Option
- 6) April 9, 2009 - Workshops on the Direct Certification Process
- 7) April 22, 2009 – Requirements of Federal Funding Accountability and Transparency Act
- 8) May 9, 2009 - Free and Reduced Price Application Workshops for Determining Officials
- 9) May 26, 2009 – Child Nutrition Programs Agreement Packet Fiscal 2010
- 10) June 29, 2009 - Training on Navigating the School Nutrition Electronic Application and Reimbursement System (SNEARS)
- 11) July 20, 2009 – Child Nutrition Programs Reimbursement Rates
- 12) July 21, 2009 - Annual Application Process for Provisions I and II
- 13) July 30, 2009 – Allowable Costs for Meals in Accordance with N.J.A.C, 6A:23A-18.5(a)(20)
- 14) August 2009 - Fiscal Year 2010 Verification Workshop Schedule
- 15) Maximum Price Schedule School Year 2009-2010
- 16) September 8, 2009 – USDA changes in Determination of Eligibility for Free School Meals/Milk
- 17) October 5, 2009 – Important Information for School Nutrition Programs
- 18) October 2009 – After School Snack Program Requirements
- 19) January 19, 2010 – School Nutrition Program Updates
- 20) January, 2010- New Jersey FDP Guidance in Crediting For and Use of Donated Foods in Contracts with FSMC
- 21) Food Service Management Company Prototype Contract Language, School Year 2009-2010
- 22) Food Service Management Company Prototype Addendum Language, School Year 2009-2010

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

JULY 1, 2009 – JUNE 30, 2010

REIMBURSEMENT RATE BREAKDOWN

NATIONAL SCHOOL LUNCH RATES

REGULAR RATE LEAs w/less than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.68	0.10	\$2.78
REDUCED	2.28	0.10	\$2.38
PAID	0.25	0.04	\$0.29

HIGH RATE (EXTRA 0.02 CENTS) LEAs w/more than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.70	0.10	\$2.80
REDUCED	2.30	0.10	\$2.40
PAID	0.27	0.04	\$0.31

SCHOOL BREAKFAST PROGRAM

REGULAR RATES			
	FEDERAL	STATE	TOTAL
FREE	1.46	0.10	\$1.56
REDUCED	1.16	0.10	\$1.26
PAID	0.26	0.10	\$.36

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.74	0.10	\$1.84
REDUCED	1.44	0.10	\$1.54
PAID	0.26	0.10	\$.36

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE	0.74
NON- AREA ELIGIBLE	
FREE	\$0.74
REDUCED	\$0.37
PAID	\$0.06

SPECIAL MILK PROGRAM

FREE	Average cost per half pint * Based on Individual LEA's costs
PAID	0.16

Commodity Value \$0.195

LEAs = LOCAL EDUCATION AGENCIES

7/15/10

June 30, 2010

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

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

Internal Service Funds

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

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

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

Self-insurance (Risk Financing):

Self insurance is the practice of a charter school controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASB Statement Number 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. GASB Statement 10 paragraph 63 permits either the use of the internal service fund or the general fund for such purposes. NJDOE has recommended using the internal service fund. The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "Blue Book") references GASB 10 paragraph 66 and states on page 101, "If a government chooses to use an internal service fund to account for its risk financing activities, interfund premiums should be classified as service fund to account for its risk financing activities, interfund

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

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

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

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

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

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

Trust Funds:

These are the three classes of trust funds:

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

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

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

There are two required trust fund financial statements under GAAP:

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

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

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

Unemployment Trust Fund

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

Effective January 1, 1999, a portion of the employee's deductions for unemployment compensation are required to be deposited in the unemployment Compensation Insurance Trust Fund. This applies to charter schools that fund New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". The percentage breakdown for the worker contributions is as follows:

As of July 1, 2004

Worker Unemployment Contributions:

0.125% Submit with Quarterly Contributions Report
0.300% ***Deposit into individual trust account***
0.425%

Charter schools that fund New Jersey Unemployment Compensation Insurance under the "Contributory Method" (Agency fund) will continue to remit the entire employee deduction to the Commissioner of Labor. If you have questions that pertain to withholding and/or filing, it is recommended that you contact the New Jersey Department of Labor at (609) 633-6400.

Section 457 Deferred Compensation Plans

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

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

If the Board is acting as a plan trustee, then the assets of the plan are reported in the fiduciary fund under the category "pension and other employee benefit trust funds." If the charter school has established a 457 plan and does not hold the assets in a trustee capacity, do not include the assets in the charter school's fiduciary fund financial statements.

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

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

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

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

Health Insurance Withholding

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

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

Organizations under the Auspices of the School

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

The State Board of Education has not prescribed a uniform system of bookkeeping for the activities funds of charter schools. *N.J.A.C. 6A:23A-16.12* states, "Each district board of education and charter school board of trustees shall ensure through adoption of a formal board policy that all financial and

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

bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices.” This policy shall include but not be limited to, the following minimum requirements:

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

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

Fund Raising in Schools by Outside Organizations

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

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

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

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

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

Funds of Teacher Organizations and Parent/Teacher Organizations

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

Funds Collected by Teachers from Pupils for Immediate Purchase of Items

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

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

June 30, 2010

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

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SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Overview

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

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

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

Reporting Capital Assets

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

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

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

Statement of Net Assets

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

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Funds Statements

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

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

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

Capital Leases

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

Construction in Progress

Assets under construction are tracked through Construction in Progress until completion. *N.J.S.A.* 18A: 18A-42 provides that purchase orders for construction, reconstruction, or rehabilitation of any public building are valid for the length of time authorized for completion of the actual project.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Sample Format for the Capital Asset Subsidiary Ledger

Schedules of capital (fixed) assets should be prepared prior to audit. The following is a suggested minimum format for charter schools' use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

Classification	N1	N2	Date Placed in Service	Acquisition Cost	Method of Depr.	Life	6/30/06 Accum. Depr.	7/1/06- 6/30/07 Depr. Expense	6/30/07 Accum. Depr.
Buildings:									
School #1			7/1/97	\$5,000,000	S/L	35 yr	\$1,285,715	\$142,857	1,428,572
Furniture:									
Desks	B2	P5	7/4/97	\$5,000	S/I	10 yr.	\$4,500	\$500	\$5,000

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

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

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

Refer to III-6 (Audit Checklists and questionnaire) for capital asset schedule requirements.

Depreciation Expense

The GASB 34 Implementation Guide dated April 2000 provides guidance on depreciation expense which is to be reported as a direct expense of the function served. As the number of functions served by an asset increases, the ease, practicality and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets serving many or essentially all functions is not required to be included in the direct expense of those many functions. Depreciation of a shared capital asset used by only a few functions can be allocated to those functions using an objective measure for the assignment of cost. For example, building depreciation may be allocated based on square footage assigned to the respective functions. The department recommends charter schools use the straight line method of depreciation.

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CAPITAL ASSETS

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SECTION II – SPECIFIC COMPLIANCE
LONG-TERM LIABILITIES

Overview

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

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

Note: Pursuant to N.J.A.C. 6A 11-7.3(b), unless backed by a mortgage, all charter school loans are to be temporary debts in anticipation of the receipt of funds and must be repaid by the end of each fiscal year.

Statement of Net Assets

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

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

Governmental Funds Statements

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

Disclosures

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

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Compensated Absences

Statement No. 16 of the Governmental Accounting Standards Board (GASB), “Accounting for Compensated Absences”, changed the method for calculation of a charter school’s liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to GASB 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

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

Pension and Other Postemployment Benefits (OPEB)

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

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

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

Under GAAP, the charter school ERIP liability is considered a contractual obligation. The liability is calculated for each participating charter school and billed to the charter school separately from its normal pension obligation, if any. In the *Statement of Net Assets*, the unpaid principal portion of the liability is to be included as part of the charter school’s long term liabilities. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of

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payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

Termination Benefits

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

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Federal and State Audit Requirements

Federal Single Audit Act

The Single Audit Act Amendments of 1996 (Act) establishes uniform requirements for audits of Federal awards administered by non-Federal entities. The Act promotes sound financial management, including effective internal controls, with respect to Federal Awards administered by non-Federal entities. The Federal Office of Management and Budget (USOMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act and requires the use of Generally Accepted Government Auditing Standards (GAGAS). Non-federal entities that expend \$500,000 or more in a year in Federal awards are required to have a Single Audit in accordance with provisions in Circular A-133. The revised version of Circular A-133 is available through the web site, http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf.

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

When auditing federal programs for the fiscal year ending June 30, 2010, auditors are required to follow the provisions of *OMB Circular A-133* available at http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf. The 2010 edition of *OMB A-133 Compliance Supplement* (Supplement) is not available at the time of publication of this Audit Program. Auditors should check for available at http://www.whitehouse.gov/omb/grants_circulars/.

Auditors should select from a list of departments in Part 4 of the Supplement (e.g., Dept. of Agriculture, Dept. of Education, Dept. of Health and Human Services) to determine compliance requirements for a specific program or grant. Appendix 5 of the document contains a list of changes in the 2010 Supplement. The *2010 Compliance Supplement* is available sale from the Government Printing Office by calling (202) 512-1800. The stock number for this document is 041-001-00667-2.

The 2009 Supplement, Appendix VII “Other OMB Circular A-133 Advisories”, section I. “American Recovery and Reinvestment Act” (ARRA) contains background and guidance on how ARRA funds impact single audits. The following excerpts from Appendix VII are available on this website: http://www.whitehouse.gov/omb/assets/a133_compliance/app_7.pdf

Background

- ♦The ARRA imposes new transparency and accountability requirements of Federal awarding agencies and their recipients
- ♦During the first audit periods using this Supplement (e.g. fiscal year ending June 30, 2010) the ARRA expenditures are expected to be significantly less than in later periods.
- ♦Auditors should be alert to determine whether auditees have properly identified ARRA awards.

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- ♦ OMB plans to issue addenda to the 2010 Compliance Supplement to provide additional guidance, as appropriate. Such addenda will include effective dates. Auditors performing OMB Circular A-133 audits (federal single audits) should look first to Appendix VII and then to the OMB Management website: <http://www.whitehouse.gov/omb/management/> under the heading of Grants Management for any addenda.

CFDA Numbers

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

Cluster of Programs

- ♦ Many ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with the existing program. Therefore, the OMB will update the clusters of programs described in Part 5 of the Supplement. Any changes will be posted on the OMB Management website: <http://www.whitehouse.gov/omb/management/> under Grants Management as addenda to the Supplement.
- ♦ The auditor is responsible for using the cluster list that matches the auditee's fiscal year end. For example, OMB plans to post an addendum for changes to clusters applicable to an audit of the fiscal period ending June 30, 2010 and post it on the OMB Management website under Grants Management for that date.

Effect of Expenditures of ARRA awards on Major Programs Determination

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

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The NJ Department of Education website: <http://www.state.nj.us/education/arra/> includes the April memo from the Commissioner, charter school allocations and the Commissioner May memos for ARRA-Title I and ARRA-IDEA, charter school allocations for SIA Part A, the request for approval for summer programs under ARRA Title I and ARRA IDEA and links to the U.S. Department of Education ARRA documents and guidance.

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

State of New Jersey Single Audit Act

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

AICPA Single Audit Guidance

The AICPA audit guide, *Government Auditing Standards and Circular A-133 Audits (Guide)* provides guidance on the auditor's responsibilities when conducting a single audit or program specific audit in accordance with the Single Audit Act Amendments of 1996 and USOMB Circular A-133. The Guide for Federal Awards incorporates guidance from the following:

- The Single Audit Act Amendments of 1996,
- OMB Circular A-133,
- AICPA Statement on Auditing Standards (SAS) No. 74, *Compliance Auditing Considerations in Audits of Government Entities and Recipients of Governmental Financial Assistance*,
- *Government Auditing Standards*,
- OMB Circular A-133 Compliance Supplement

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Risk-Based Approach

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

§ __.520 Major program determination.

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

b) **Step 1.**

- 1) The auditor shall identify the larger Federal programs, which shall be labeled Type A. programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:
 - i. \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100,000 million.
 - ii. \$3 million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$100 million but are less than or equal to \$10 billion.
 - iii. \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$10 billion.

c) **Step 2.**

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

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The Report on the National Single Audit Sampling Project issued by the President's Council on Integrity and Efficiency in June 2007 indicated numerous errors in the single audits. To address single audit deficiencies and to enhance the overall quality of single audits, the NJDOE Office of Fiscal Accountability and Compliance (OFAC) designed the Single Audit Summary Sheet. This Summary replaces the Type A Programs Worksheets, and the CAFR Submission Checklist and is required as part of the CAFR Reporting Package submitted to New Jersey Department of Education. Shaded areas are entered by the department or are automatically calculated. The auditor must complete sections A, C and F for every charter school and Section D of the Summary for charter school that have a federal and/or state single audit. The form is accessible through the FY10 Single Audit Summary link at the OFAC website:

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

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

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

Schedules of Expenditures of Federal Awards and State Financial Assistance

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

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

If the budgetary expenditure incurred by the charter school are less than the amount of federal aid cash received (special revenue only), the charter school shall apply for carryover where permissible by statute after completion of the project period. Excess cash received is reported as deferred revenue on the *Schedule of Expenditures of Federal Awards* (Schedule A) in the single audit section of the CAFR, in the

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column titled “Deferred Revenue”. For many federal grants, the grant period ends August 31, therefore, deferred revenue at June 30 may still be used during July and August.

Upon approval of the final report by the NJDOE Office of Grants Management (OGM), any unexpended funds a charter school elects to carry over are identified as prior year carryover funds and are brought forward into a separate line in the Allocation section of the subsequent year grant application on the EWEG system. At this point, if the subsequent year application has final NJDOE approval, the charter school must submit an amendment application to budget the prior year carryover funds.

When the charter school elects not to carryover the unexpended current year balance approved through the final report, or when prior year carryover funds are expired,, the funds shall be refundable to the department and shall be reported on Schedule A, column entitled "Due to Grantor." All funds that have been refunded during the fiscal year shall be shown on Schedule A, column entitled "Repayment of Prior Year Balances."

In January 2009, the NJDOE moved to a reimbursement method of payment. If a charter school submits for reimbursement of current year (2009-2010) expenditures and has carryover from prior year (2008-2009) grant, the balance of the prior year carryover funds is offset against the reimbursement until the prior year carryover funds have been fully expended. Generally, a charter school submits for reimbursement by the 15th of the month for expenditures incurred as of that date or anticipated to be incurred by the end of the month. The reimbursement for that month will be made in the subsequent month. When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled “(Accounts Receivable).” No negative cash balances are permissible in the balance sheet. There should be an interfund payable set up to reflect advances from the General Fund.

Example:

An NCLB award for the period September 1, 2008 to August 31, 2009 must be obligated by August 31, 2009 and liquidated by November 30, 2009. Funds that were unexpended or unencumbered at June 30, 2009, should have been reported as deferred revenue in the June 30, 2009 *Schedule of Expenditures of Federal Awards*. Unexpended/unencumbered funds remaining at August 31, 2009 (the end of the grant period) are considered carryover. When the final report for the 2008-2009 grant period is approved by OGM, the carryover automatically is brought forward into the current year (2009-2010) grant application in the NJDOE EWEG system. At this point the charter school amends the current year application to budget the prior year carryover funds. The carryover funds are considered expended first during the current grant period. In the rare situation where a charter school does not obligate the full amount of the prior year carryover (2008-2009) by August 31, 2010 and liquidate the full amount of the prior year carryover (2008-2009 grant) by November 30, 2010, the difference will be due back to the grantor. If payment has not been made by June 30, 2010, the amount should be reported in the June 30, 2011 *Expenditures of Federal Awards* as Due to Grantor and every year until the funds are repaid to the grantor.

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

Code of Federal Regulations: Title 34 Education (Part 80 – Sec.80.50 Closeout)

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

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The No Child Left Behind Act (NCLB) of 2001 (P.L. No. 107-110) reauthorizes the *Elementary and Secondary Education Act of 1965* (ESEA). NCLB contains fiscal compliance issues including, but not limited to, supplement not supplant, commingling of funds, allowable costs, administrative costs caps, maintenance of fiscal effort, comparability, transferability, and schoolwide programs. NCLB Policy Guidance is available at <http://www.nclb.gov/>. The New Jersey NCLB Reference Manual includes fiscal guidance in Section IV “Fiscal Regulations and Responsibility” of the FY 2010 NCLB Application available at <http://www.nj.gov/njded/grants/entitlement/nclb/>.

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

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

Two separate schedules, the *Schedule of Expenditures of Federal Awards* and the *Schedule of Expenditures of State Financial Assistance* are prepared from the charter school records and must include all active (i.e. - not closed) financial assistance programs in which a charter school is participating regardless of the fund in which they are accounted. Each schedule must reflect the current fiscal year's activity as well as total disbursements by program in the format as presented later in this chapter of the Audit Program (II-SA.15-16). The information presented on these schedules must agree with the amounts reported in the *Budgetary Comparison Schedules* and the *Combining Schedule of Program Revenues and Expenditures, Special Revenue Fund – Budgetary Basis*. Explanations of the information required to be included are presented below.

These schedules are prepared using budgetary expenditures which must be reconciled to the *Balance Sheet – Governmental Funds* on the *Budget to GAAP Reconciliation in the Notes to RSI*. The adjustment for encumbrances in the special revenue fund will be reported as reconciling items. See Section I-8 and III-3 for additional guidance.

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

Definitions/Headers

1. **Grantor/Program Title:** This column designates the original grantor department/agency (grantor) of the financial assistance and the name of the assistance program. Programs are classified by grantor and are further delineated within grantor as to direct or pass-through programs. The schedule must identify the program as direct or pass-through. When there are

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several active grants within the same program they will be presented separately within the schedule.

2. **Federal CFDA Number:** Applicable to *Schedule of Expenditures of Federal Awards* only. Represents the federal program number, which is obtainable from the Catalog of Federal Domestic Assistance (CFDA). When the CFDA number is not available, this fact should be noted and the program should be identified by another identifying number, if available.
3. **Grant (Contract) or State Project Number: (State Aid NJCFS Number):** This is applicable to the *Schedule of Expenditures of State Financial Assistance* only and is the state identifying number that can be obtained in a latter page of this chapter of the Audit Program (II-SA) or from the NJ State Appropriations Handbook. It is used by the Department of Education for monitoring and reconciling state awards.
4. **Grant Period:** Represents the initial period for which the program was awarded.
5. **Program/Award Amount:** Designates the amount of the initial program award. The full amount of the award or grant agreement should be reported in this column. **Noncash awards such as a state grant for facilities (EDA/SCC funds) which are paid directly by the EDA/SCC to the vendors are included in this column and may be notated (NC).**
6. **Balance at June 30, 2009:** This is used to present deferred revenue, intergovernmental accounts payable (due to grantor), or intergovernmental accounts receivable for those prior year programs, which have balances as of the end of the prior fiscal year. On the *Schedule of Expenditures of Federal Awards* these amounts are shown netted in one column, but the charter school may separate them into multiple columns. On the *Schedule of Expenditures of State Assistance* a separate column is presented for Due to Grantor . A charter school may report accounts receivable and deferred revenue in either a single column or a separate column. A positive amount reflects deferred revenue or intergovernmental accounts payable. A negative amount for unrestricted revenue sources represents an intergovernmental accounts receivable. The budgetary receivable included in the 2008-2009 *Schedule of Expenditures of State Assistance* is not included in this column.
7. **Carryover/(Walkover) Amount:** Reflects the movement of award proceeds, which have been approved for carryover into a carryover program code. Note that any walkover amount must be reflected as a negative amount on the line from which it was transferred, and a positive amount on the grant/aid program line to which it was transferred. Prior year state restricted formula aids would be reflected in this column.
8. **Cash Received:** Reflects the amount of cash received during the current fiscal year for the applicable financial assistance program.
9. **Budgetary Expenditures:** Represents the total costs chargeable to the program during the current fiscal year on a budgetary basis. These amounts must agree with the amounts reported in the *Budgetary Comparison Schedules (General Fund (GAAP) and Special Revenue Fund(Grant Accounting))* and the *Budgetary Comparison Schedule, Note to RSI* and the *Special Revenue Combining Schedule of Program Revenues and Expenditures – Budgetary Basis*.

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- 10. Adjustments:** In instances where a grant period overlaps fiscal years and the grant has not closed out as of the end of the current fiscal year, favorable differences incurred in the liquidation of encumbrances charged as budgetary basis expenditures in the prior year should be included in the *Schedules of Expenditures of Federal Awards* (Schedule A) and *Schedule of Expenditures of Expenditures of State Financial Assistance* (Schedule B) in a column entitled “Adjustments.” This column would not be used for differences in the liquidation of encumbrances on grants, which have closed out as of the end of the current fiscal year since these differences would affect current year expenditures. Reporting this information separately from current year expenditures will provide a clearer indication of the grant activity during a period of time. Any amount reported as an adjustment in the Schedule A or Schedule B must be fully explained in the *Notes to the Schedules of Expenditures of Awards and Financial Assistance*, including the reason for the adjustment and the period to which it pertains. The charter school should include a column for Adjustments only if it is applicable.
- 11. Repayment of Prior Years' Balances:** Repayments made during the current fiscal year to a grantor for unexpended funds on a program whose grant period has expired and no carryover was granted or allowed. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the Grantor during the current year. The charter school should include a column for Repayment of Prior Years' Balances only if it is applicable. The column is not shown on the sample Schedule B, but would be inserted after the Expenditures (or Adjustments if applicable) column.
- 12. Intergovernmental Receivable June 30, 2010:** Amounts due from the grantor as of fiscal year end are reflected here. These amounts must agree with the amounts reported in the Balance Sheet (Exhibit B-1) for the governmental funds or with the Food Service column in the Statement of Net Assets (Exhibit B-4) for the Proprietary Funds.
- 13. Deferred Revenue at June 30, 2010:** Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year are reflected here. These amounts must reconcile to the amounts reported in the *Basic Financial Statements*.
- 14. Due to Grantor at Fiscal June 30, 2010:** Unexpended award proceeds, which are due back to the grantor as of fiscal year end, are listed here. These amounts are reflected in the general ledger as Intergovernmental Accounts Payable and should reconcile to the amounts reported in the *Basic Financial Statements*. This column will be utilized by the Department of Education to identify and collect moneys due to the state for federal and state programs. If the charter school has amounts due back to the grantor at the end of the fiscal year, that amount must appear in the Due to Grantor column of the current fiscal year, and also in each subsequent year's CAFR as a balance at June 30 of the prior year until the amount is ultimately repaid. If the charter school has no unexpended award proceeds due back to the grantor, show the column heading and leave the column blank. See the discussion on pages II-SA.5 and 6.
- 15. Budgetary Receivable:** The amount reported in the first MEMO column on Schedule of Expenditures of State Financial Assistance is computed using the Program/Award amount less the cash received. A deficit in a program cannot exceed this amount.
- 16. Cumulative Total Expenditures:** This column is a memo only column, used on the *Schedule of Expenditures of State Financial Assistance*, and reports the cumulative expenditures of a grant.

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If the grant crosses fiscal years, the amount may differ from the budgetary expenditures since the budgetary expenditures represent expenditures for only the current fiscal year. These amounts will most likely be the same for most forms of state aid reported by NJ charter schools.

Specific Program Information

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

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

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

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

Audit Findings

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

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

The Auditors Management Report and the Schedule of Findings and Questioned Costs must indicate whether the charter school has complied with federal and state regulations in a timely manner. Grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds are required by the department upon approval of the final expenditure report. If grant periods extend beyond the audit

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

deadline of June 30th, unexpended funds should be listed as Deferred Revenue and refunded with the Final Expenditure Reports. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the Grantor. If the Charter School Schedule of Finding and Questioned Costs or Audit Findings indicate that refunds are due, the refunds are to be submitted promptly with an explanation regarding the findings.

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

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

CFDA #

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.579	ARRA – National School Lunch Program Equipment
10.559	Summer Food Service Program for Children
10.582	Fresh Fruits and Vegetable Program
84.010A	Title I Part A Grants to Local Educational Agencies
84.011A	Title I, Part C Education of Migrant Children
84.027	Individuals with Disabilities – States Grant
84.040	Impact Aid – Facilities Maintenance
84.041	Impact Aid
84.048A	Perkins Vocational Education - Basic Grants
84.173	Preschool Grants for Children with Disabilities
84.186A	Safe and Drug-Free Schools and Communities (SEA Portion)
84.196	Education for Homeless Children and Youth
84.213C	Title I, Part B Even Start

SECTION II – SPECIFIC COMPLIANCE
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FEDERAL PROGRAM NUMBERS cont'd.

CFDA #

84.243A	Perkins Voc Tech Prep Education
84.282	Public Charter Schools
84.287C	21 st Century Community Learning Centers
84.293C	Foreign Language Assistance Grants
84.318X	Enhancing Education through Technology (Title IID)
84.357A	Reading First
84.358B	Rural Education
84.365A	English Language Acquisition (Title III)
84.367A	Improving Teacher Quality State Grants (Title II Part A)
84.377A	School Improvement Grants
84.386	ARRA – Educational Technology State Grants
84.387	ARRA - Homeless
84.388	ARRA – School Improvement Grants
84.389	ARRA – Title I Part A
84.391	ARRA – IDEA Part B
84.392	ARRA – Preschool Grants
84.394	ARRA - SFSF-ESF (Educ. State Grants)
84.397	ARRA-SFSF-GSF (Government Services)
93.778	Medical Assistance Program
93.938	Comprehensive School Health/HIV
94.004	Learn and Serve

SECTION II – SPECIFIC COMPLIANCE
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STATE AID AND STATE GRANT
STATE ACCOUNT NUMBERS

GENERAL FUND

10	495-034-5120-078	Equalization Aid
10	495-034-5120-083	Education Adequacy Aid
10	495-034-5120-089	Special Education Categorical Aid
10	495-034-5120-084	Security Aid
10	495-034-5120-085	Adjustment Aid
10	495-034-5120-068	School Choice Aid
10	495-034-5120-014	Transportation Aid
10	495-034-5120-077	Adult and Postsecondary Education Grants
10	495-034-5120-078	Payment for institutionalized Children - Unknown District of Residence
10	495-034-5095-001	Teachers' Pension and Annuity Fund - Post Retirement Medical
10	495-034-5095-002	Social Security Tax
10	495-034-5095-006	Teachers' Pension and Annuity Fund
10	495-034-5095-007	Teachers' Pension and Annuity Fund - Non-contributory Insurance
10	100-034-5062-032	Vocational Education
10	495-034-5120-071	Charter School Aid

SPECIAL REVENUE FUND

10	495-034-5120-086	Preschool Education Aid
10	100-034-5120-064	N.J. Nonpublic Textbook Aid
10	100-034-5120-066	N.J. Nonpublic Handicapped Aid
10	100-031-5120-067	N>J. Nonpublic Auxiliary Services Aid
10	100-034-5120-068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
10	100-034-5120-070	N.J. Nonpublic Nursing Services
10	100-034-5120-373	N.J. Nonpublic Technology Initiative
10	100-034-5120-074	Educational information and Resource Center (EIRC)
10	100-034-5062-032	Vocational Aid

DEBT SERVICE FUND

10	495-034-5120-017	Debt Service Aid - State Support
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ENTERPRISE FUND

10	100-010-3350-021	State School Breakfast Program
10	100-010-3350-022	Nonpublic Nutrition Aid
10	100-010-3350-023	State School Lunch Program

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

Schedule of Expenditures of Federal Awards

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

[Single Audit](#)

Select the tab entitled “Schedule A”
Selecting print will produce page II-SA.15 of [The Audit Program](#)

June 30, 2010

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

Schedule of Expenditure of State Financial Assistance

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

Single Audit

Select the tab entitled “Schedule B”

Selecting print will produce page II-SA.16 of The Audit Program

**SCHEDULE A
Exhibit K-3**

**ANYTOWN CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
for the Fiscal Year ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant or State Project Number	Program or Award Amount	Grant Period From: To	Balance at June 30, 2009	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment of Prior Years' Balances	Balance at June 30, 2010		
											Accounts Receivable	Deferred Revenue	Due to Grantor

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

**SCHEDULE B
Exhibit K-4**

**ANYTOWN CHARTER SCHOOL
Schedule of Expenditures of State Financial Assistance
for the Fiscal Year ended June 30, 2010**

State Grant/Program Title	Grant or State Project Number	Program or Award Amount	Grant Period		Balance at June 30, 2009		Balance at June 30, 2010			MEMO										
			From	To	Deferred Revenue (Accts Receivable)	Due to Grantor	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures		Adjustments/ Repayment of Prior Years' Balances	(Accounts Receivable)	Deferred Revenue/ Interfund Payable	Due to Grantor	Budgetary Receivable	Cumulative Total Expenditures				

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

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

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

Section I – Summary of Auditor's Results

Financial Statements

(Reference – Section .510 and .520 of Circular OMB-133)

Type of auditor's report issued: _____

Internal control over financial reporting:

- 1) Material weakness(es) identified? _____ yes _____ no
- 2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

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

Federal Awards

Internal Control over major programs:

- 1) Material weakness(es) identified? _____ yes _____ no
- 2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs (.520): \$
Auditee qualified as low-risk auditee? _____ yes _____ no

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

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

Section I --Summary of Auditor's Results (cont'd.)

State Awards

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

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

Internal Control over major programs:

1) Material weakness(es) identified? _____ yes _____ no

2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

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

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 04-04? _____ yes _____ no

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
_____	_____
_____	_____
_____	_____
_____	_____

Note to Preparer: When a Federal or State single audit is not required -- do not include that Awards Section.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

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

Section II – Financial Statement Findings

[This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the general-purpose financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. See the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* for further guidance on this schedule.]

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

Finding XX-X

Criteria or specific requirement:

Condition:

Context:

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions:

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

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

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

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

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

FEDERAL AWARDS

Finding XX-X

Information on the federal program(1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

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

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

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

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

STATE AWARDS

Finding XX-X

Information on the state program (1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Management's response (5):

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

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

- OMB 133, .500(e) “The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with ¶315(b) and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.”
- OMB 133, .315 (b)(1) states, “If the audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.”
- OMB 133.315, (b) (2) states, “When the audit findings were not corrected, or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”
- OMB 133, .315 (b) (2) states, “When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency’s or pass-through entity’s management decision, the summary schedule shall provide an explanation.”

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

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

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

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

STATUS OF PRIOR YEAR FINDINGS

Finding # _____

Condition

Current Status

SECTION III – REPORTING
CHAPTER 1 – AUDIT CRITERION AND SUBMISSION

Legal or Regulatory Requirements

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

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

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

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

Peer Review

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

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

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

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

Audit Submission

Auditors are encouraged to monitor the progress of Assembly bill A415 which would amend *N.J.S.A. 18A-23-1* and immediately provide an additional month for the completion of a charter school's annual audit. At the time of publication of this Audit Program, the audit must be completed not later than 4 months after the end of the fiscal year (November 1). *N.J.S.A. 18A:23-3* requires "...such accountant shall within 5 days thereafter file two duplicate copies thereof certified under his signature in the Office of the Commissioner." (November 5, 2010). No provision is made for the issuance of extensions beyond the statutory due date. If a charter school fails to have an annual audit completed by November 1, the Commissioner of Education can appoint a qualified auditor to conduct the audit of the charter school. The cost of conducting such an audit would be paid out of the funds of the charter school.

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

Audit Reporting Package

- The Reporting Package for most charter schools consists of two separate required audit reports: the CAFR and the Auditor's Management Report (AMR). Both reports must be signed by the appointed public school accountant performing the audit, not by the firm or corporation that employs the auditor, submitted to the charter school board of trustees. Three electronic copies on CD-Rom of the CAFR, AMR, Data Collection Form and Single Audit Summary must also be sent to the Department of Education. An additional copy of the CAFR, the AMR, Data Collection Form, and Single Audit Summary must be emailed to school-funding@doe.state.nj.us or sent in CD-Rom form to Office of School Funding, P.O. Box 500, Trenton, NJ 08625 Attn: Kathy Ambrosio

Audit Summary diskette (Audsum)

- The Audit Summary Worksheet is generated by the software and must be signed by both the auditor and the charter school business administrator.
- The Audsum is transmitted to the Department by the School Business Administrator.

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

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

Additional reports/worksheets submitted to the Department

- Peer Review Report
- Data Collection Form (if applicable; see Single Audit section II-SA)
- Single Audit Summary (see Single Audit Section II-SA and the OFAC Website <http://www.state.nj.us/education/business/audit.htm>). Note that sections A, C, and F apply to all charter schools and section D applies to those charter schools subject to a federal and/or state single audit.

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

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

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

This form replaces the Type A worksheet and the CAFR Information Schedule/Checklist that was in this chapter in prior years. The form is available at a link titled “FY10 Single Audit Summary” accessed through the following link to OFAC’s website:

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

Single Audit Report Submission Requirements

Federal Single Audit Requirements

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

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

Data Collection Form

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

Data Collection Form information is entered electronically through the Federal Audit Clearinghouse Internet Data Entry System (IDES) at the website <http://harvester.census.gov/fac/collect/ddeindex.html>. Auditors should refer to the instructions at http://harvester.census.gov/fac/collect08/main_instruct.pdf. For SF-SAC and OMB 133 submission questions contact the Federal Audit Clearinghouse by email govs.fac@census.gov or phone 1-800-253-0696 (toll free) , or 301-763-1551.

Federal Reporting Package

The Reporting Package must include the following

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

Corrective Action Plan

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

Submission of Federal Reports to State Departments

In addition to the required submissions to the Federal Clearinghouse, the auditee must also submit one copy of the Reporting Package to each pass-through entity (including the NJ Department of Agriculture) when the schedule of findings and questioned costs and/or the summary schedule of prior audit findings disclosed audit findings or reported on the status of prior audit findings relating to Federal awards that the pass-through entity provided. The reporting package must be transmitted to the federal collection center electronically.

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

State Single Audit Requirements

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

State Single Audit Reporting Package

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

Corrective Action Plan – State requirements

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

Reporting Errors

Auditor’s Management Report

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

- **Immaterial Errors and Omissions**
Sometimes an auditor will detect an error that requires disclosure pursuant to *N.J.S.A.* 18A: 23-9. However, the auditor may not believe a recommendation is needed because the error was insignificant and an isolated unintentional deviation from the Board’s standard operating

procedure. In such instances the auditor must report the item as a finding, state in the comments that in his or her opinion no recommendation is necessary, and elaborate on the reason(s) for this opinion. Any negative comment without a corresponding recommendation will be cited during the Quality Assessment Review unless accompanied by such an explanation. The reviewer will consider the explanation and the nature of the disclosure for adequacy. Auditors should exercise caution when determining which findings require disclosure and recommendations.

- Other Recommendations to the Board of Education
Auditor recommendations which are not required comments or related to a finding of noncompliance or questioned cost but rather represent suggestions to management should be grouped together and included at the end of the Auditors' Management Report in a section titled "Suggestions to Management." Management suggestions are not required to be included in the charter school's Corrective Action Plan.

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

In accordance with the Single Audit Act, USOMB Circular A-133 and NJOMB Circular Letter 04-04 all questioned costs and findings of noncompliance with applicable federal and state laws and regulations pertaining to federal and state financial assistance programs must be reported in the *Schedule of Findings and Questioned Costs* in the single audit section of the charter school's CAFR if they meet the criteria for reporting audit findings as detailed in Circular A-133 (Section .510). See Section II-SA of the Audit Program for sample format of the schedule. As noted above, all items reported in the single audit section must be repeated in the Auditors' Management Report. Illustrative Auditor's Report Under OMB Circular A-133, Example 13-6, Schedule of Findings and Questioned Costs, has been revised for SAS No. 115. Published by the AICPA on March 11, 2010 the sample report is available at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/Illustrative%20Auditor%27s%20Reports%20Under%20OMB%20Final.pdf>

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

SECTION III – REPORTING
CHAPTER 2 – SAMPLE OPINION REPORTS

Directives for Auditors Reports

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

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

The AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits (AICPA Audit Guide)* is available through the AICPA website <http://gaqc.aicpa.org> and incorporates recent changes to the AICPA auditing standards and Government Auditing Standards. The auditor reporting required under OMB Circular A-133 will be affected by the issuance of SAS NO. 115, *Communicating Internal Control Related Matters Identified in an Audit*. SAS 115 is effective for audits of financial statements for periods ending on or after December 15, 2009 and is incorporated in section AU Section 325 available for download from the AICPA at:
<http://www.aicpa.org/research/standards/auditattest/downloadabledocuments/AU-00325.pdf>

Sample reports updated to include Statement of Auditing Standards No. 115 terminology are available at the AICPA link:
<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/default.aspx>. **Auditors should check the AICPA website and the reports link for the most recent sample reports.** For additional guidance, the revised 2007 *Government Auditing Standards* (the 2007 Yellow Book) issued July 2007 by the U.S. General Accounting Office is available at www.gao.gov. The 2007 Yellow Book is applicable for financial audits of periods beginning on or after January 1, 2008. The term “reportable conditions” is no longer used in the reporting.

Component Units

Government Accounting Standards Board (GASB) 14 as amended by GASB 39 requires that separately issued financial statements of a component unit indicate that the entity is a component unit of another government. The notes to the component unit’s financial statements should disclose the identity of the primary government of the financial reporting entity and describe the relationship with the primary government. For the auditor’s report, the AICPA’s publication *State and Local Governments* issued May 2007 (Paragraph 14.45) refers to the language used in the introductory paragraph of the illustrative auditor’s report in appendix A, Example 14A.2. – “We have audited the accompanying basic financial statements of Sample Charter School , a component unit of Sample County, as of and for the year ended June 30, 20X1, as listed in the table of contents ...”. Charter School staff and auditors should refer to the guidance on the department’s website http://www.nj.gov/njded/finance/fp/gasb34/component_unit.shtml for further information on component units.

SECTION III – REPORTING
CHAPTER 2 – SAMPLE OPINION REPORTS

Auditor Reports

The reports generally required in connection with an audit performed under the Single Audit Act of 1984, P.L. 98-502 as amended by the Single Audit Act Amendments of 1996, P.L. 104-156 and required by NJOMB Circular Letter 04-04 have been revised for SAS No. 115. Illustrative Auditor’s Reports Under GAS (4-1 through 4-7) have been published by the AICPA are available at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/DownloadableDocuments/IllustrativeAuditorsReportsUnderGASFINAL.pdf>

Example

<i>No.</i>	<i>Title</i>
4-1	Unqualified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Supplementary Information—State or Local Governmental Entity

New Jersey Specific References to be included:

- In paragraph 2, sentence 1, the phrase *“and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey”* should be added to the end of the sentence.
- If the audit has been conducted in accordance with OMB A-133, the paragraph which discusses the accompanying schedules of expenditures of federal awards and state financial assistance should also include the phrase *“and New Jersey OMB’s Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, respectively”* in the first sentence.

4-3	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)</i>
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New Jersey Specific References to be included:

- The last sentence of the first paragraph should include the phrase *“and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey”* at the end of the sentence.
- In the section for Compliance and Other Matters”, the last sentence of the first paragraph should include the phrase *“and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey”* at the end of the sentence.
- The New Jersey Department of Education should also be included in the list of agencies for which the report is intended for use.

The sample audit reports listed above are based on the assumption that no qualifications of opinion are required. Reports 4-4 through 4-7 include language as to reportable instances of non-compliance and separate communications to management of immaterial instances of non-compliance and certain matters involving internal control audit findings that should be included in the reports if such findings apply.

Auditors should reference the link above for the appropriate language to be included if significant deficiencies or material weaknesses are identified.

SECTION III – REPORTING
CHAPTER 2 – SAMPLE OPINION REPORTS

Illustrative Auditor’s Reports Under OMB Circular A-133, (13-1 through 13-6), revised for SAS No. 115, were published by the AICPA on March 11, 2010 and are available at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/Illustrative%20Auditor%27s%20Reports%20Under%20OMB%20Final.pdf>

Example No. Title

13-1 Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified*)

New Jersey Specific References to be included:

- In paragraph 1, sentence 1, the phrase “*and the New Jersey State Aid/Grant Compliance Supplement*” should be added after the reference to the OMB Circular A-133 Compliance Supplement.
- In paragraph 2, sentence 1, the phrases “*the audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey*” and “*New Jersey OMB’s Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*” should be added in the sentence.
- In paragraph 2, sentence 2, the phrase “*and New Jersey OMB’s Circular 04-04*” should be added after the reference to OMB A-133.
- In paragraph 3, sentence 2, the phrase “*and New Jersey OMB’s Circular 04-04*” should be added after the reference to OMB A-133.
- The New Jersey Department of Education should also be included in the list of agencies for which the report is intended for use.

13-6 Schedule of Findings and Questioned Costs

The sample audit reports listed above are based on the assumption that no qualifications of opinion are required. Reports 13-2 through 13-5 include language as to reportable instances of non-compliance and separate communications to management of immaterial instances of non-compliance and certain matters involving internal control audit findings that should be included in the reports if such findings apply. Auditors should reference the link above for the appropriate language to be included if significant deficiencies or material weaknesses are identified.

SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit* is effective for audits of financial statements for periods ending on or after December 15, 2009 requires changes to the Auditor’s Reports for June 30, 2010 audits and is incorporated into AU Section 325 available for download from the AICPA at:

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

June 30, 2010

SECTION III – REPORTING
CHAPTER 2 – SAMPLE OPINION REPORTS

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SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

Disclosure

A governmental entity's reports and statements, both financial and operational should contain the information necessary for users--management, the electorate, creditors, grantors, and others--to form an opinion on the effectiveness of the stewardship exercised by the responsible public officials. The responsibility for providing such information is that of management. However, the auditor should comment if the data provided is insufficient to disclose any matters that may have a material effect upon the financial reports.

Adequate disclosure is that which is required by generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants (AICPA), as well as adherence to the accounting standards promulgated by the Governmental Accounting Standards Board (GASB). Disclosure should be fair, manageable and reasonably complete, not complex or difficult to understand.

Weight should be given to materiality, which is the relative importance or relevance of an item included in or omitted from a financial or operating report. There are no universal ratios or percentages that can be used as standards of materiality for financial or operational processes or transactions. Materiality should be based on judgment. Auditors should reference the AICPA Audit and Accounting Guide, *State and Local Governments* and *Government Auditing Standards and Circular A-133 Audits* for guidance on materiality. This Guide specifies that auditor reporting on governmental financial statements should be based on opinion units.

The following notes for the Schedules of Expenditures of Awards and Financial Assistance are required by OMB Circular A-133, Sec. 310. The sample financial statement disclosures presented in this chapter are illustrative of some of the more common disclosures or unique to NJ charter schools. They are not intended to be a boilerplate and should be included **only** if they apply to that charter school's CAFR. The source of reference (e.g. GASB Codification Section or NJ Department of Education) is included at the end of each sample note. Additional information and samples of the same disclosures can be found in the GFOA *Governmental Accounting, Auditing and Financial Reporting* (the Blue Book), GASB *Codification of Governmental Accounting and Financial Reporting Standards*, and the ASBO International Self-Evaluation Worksheet.

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

**SAMPLE NOTES TO THE SCHEDULES OF EXPENDITURES OF AWARDS AND
FINANCIAL ASSISTANCE**

Any Charter School

Notes to Schedules of Expenditures of Award and Financial Assistance

June 30, 20XX

NOTE 1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state activity of the Board of Trustees, Any Charter School. The Board of Trustees is defined in Note 1 to the Board's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented using the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the Board's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis, which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not.

The net adjustment to reconcile from the budgetary basis to GAAP basis is \$_____ for the general fund and \$_____ for the special revenue fund. See *Note 1* (the Notes to Required Supplementary Information) for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as presented on the following page:

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

Any Charter School
Notes to Schedules of Expenditures of Awards and Financial Assistance (Cont'd)
June 30, 200X

NOTE 3: RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (CONT'D)

	Federal	State	Total
General Fund	\$	\$	\$
Special Revenue Fund			
Food Service Fund			
Total Awards & Financial Assistance	\$ _____	\$ _____	_____

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING

Anytown Charter School had the following loan balances outstanding at June 30, 200X:

<u>Loan Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal EPA	N/A	\$XXX,XXX

NOTE 6. OTHER

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions respectively. The amount reported as TPAF Pension Contributions represents the amount paid by the state on behalf of the Charter School for the year ended June 30, 20XX. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 20XX.

NOTE 7. SCHOOLWIDE PROGRAM FUNDS

Schoolwide programs are not separate federal programs as defined in OMB Circular A-133; amounts used in schoolwide programs are included in the total expenditures of the program contributing the funds in the Schedule of Expenditure of Federal Awards. The following funds by program are included in schoolwide programs in the charter.

Program	Total
Title I, Part A: <i>Improving Basic Programs Operated by Local Education Agencies</i>	\$ 615,764
Title II, Part A: <i>Teacher and Principal Training and Recruiting</i>	497,682
Title II, Part D: <i>Enhancing Education Through Technology</i>	112,071
Title IV Part A: <i>Safe and Drug-Free Schools and Communities</i>	150,319
Title V Part A: <i>Innovative Programs</i>	<u>170,987</u>
 Total	 <u>\$1,546,823</u>

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

FINANCIAL STATEMENT DISCLOSURES – OVERVIEW AND SAMPLE NOTES

Please note that the sample notes included in this section are not intended to be all inclusive. Auditors and charter school staff should also refer to GASB Codification Section 2300 and the AICPA Checklists and Illustrative Financial Statements for State and Local Governmental Units for further guidance on disclosures.

Categories of disclosures affected by GASB 34 and GASB 38 are indicated below with the paragraph of the Statement noted. Illustrative disclosures are reflected in both GASB Statements. In addition, GASB 38, Appendix B, par. 68 includes a list of disclosure requirements not changed. Samples for the capital assets and long-term liabilities may be found on the NJDOE website <http://www.nj.gov/njded/finance/fp/cafr/>.

Summary of Significant Accounting Policies – GASB 34, par. 115; GASB 38, 6-8

Violations of Finance-related Legal or Contractual Provisions – GASB 38, par. 9

Capital Assets – GASB 34, par. 116-118

Long-term Liabilities – GASB 34, par. 116, 119

Short-term Debt – GASB 38, par. 12

Debt and Lease Obligations – GASB 38, par. 10-11

Disaggregation of Receivable and Payable Balances – GASB 38, par. 13

Interfund Balances and Transfers – GASB 38, par. 14

The disclosures should be revised where applicable for more recent applicable GASB Statements.

SAMPLE BASIC FINANCIAL STATEMENT NOTES

NOTE 1, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. BUDGETS/BUDGETARY CONTROL

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles. Encumbrance accounting is employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

SECTION III – REPORTING
CHAPTER 3 – NOTE DISCLOSURES

GASB 34 Model Illustration of Reconciliation

Notes to Required Supplementary Information Budgetary Comparison Schedule

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund	Special Revenue Fund
Sources/inflows of resources		
Actual amounts (budgetary) “revenues” from the budgetary comparison schedules	\$ 23,101,430	\$ 7,983,526
Difference – budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		(21,204)
<hr/>		
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds.	\$ 23,101,430	\$ 7,962,322
<hr/>		
Uses/outflows of resources		
Actual amounts (budgetary basis) “total outflows” from the budgetary comparison schedule	\$ 24,209,664	\$ 7,983,528
Differences – budget to GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are supplied for financial reporting purposes.		(21,206)
Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes.		
Net transfers (outflows) to general fund.		(2,668,125)
<hr/>		
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds.	\$ 24,209,664	\$ 5,294,197
<hr/>		

Auditor’s Note – The following POST-RETIREMENT BENEFITS information is Statewide data and should be utilized in the 2009-10 charter school CAFR. The data in this note is obtained from the NJ CAFR, June 30, 2009.

SECTION III – REPORTING
CHAPTER 3 – NOTE DISCLOSURES

NOTE X. POST-RETIREMENT BENEFITS

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers’ Pensions and Annuity Fund (TPAF) and the Public Employees’ Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c 103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2009, there were **84,590** retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The state made post-retirement (PRM) contributions of \$1.38 billion for fiscal year 2009 and \$3.22 million for fiscal year 2008.

The State is also responsible for the cost attributable to P..L. 1992 c. 126, which provides free health benefits to members of PERS, and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service.

The state paid \$116.9 million toward Chapter 126 benefits for 13,320 eligible retired members in Fiscal Year 2009.

(GASB Cod. Sec. 2300.107(v))

Auditor’s Note – The following sample footnote disclosures are notes that are frequently omitted from charter school CAFRs filed with the Department of Education. If applicable, the department **recommends** the following disclosures be included in the notes to the financial statements if applicable to that charter school.

NOTE X. COMPENSATED ABSENCES

The charter school accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), “Accounting for Compensated Absences.” A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Charter school employees are granted varying amounts of vacation and sick leave in accordance with the charter school’s personnel policy. Upon termination, employees are paid for accrued vacation. The Charter School’s policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement employees shall be paid by the Charter School for the unused sick leave in accordance with the Charter School’s agreements with the various employee unions.

X = *Applicable footnote number in the charter school’s CAFR.*

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

In the charter school-wide *Statement of Net Assets*, the liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 200X, a liability existed for compensated absences in the Food Service Fund in the amount \$XX,XXX.

(GASB Cod. Sec., C60)

NOTE X. RISK MANAGEMENT

The charter school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The charter school maintains commercial insurance coverage for property, liability, student accident and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

New Jersey Unemployment Compensation Insurance - The charter school has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the charter school is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The charter school is billed quarterly for amounts due to the State. The table is a summary of charter school contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the charter school's expendable trust fund for the current and previous two years:

<u>Fiscal Year</u>	<u>Charter School Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
20X9-2010				
20X8-20X9				
20X7-20X8				

(GASB Cod. Sec. 2300.107(a))

NOTE X. INTERFUND BALANCES AND TRANSFERS.

Auditor's Note – GASB Statement No. 38, paragraphs 14 and 15 revised the required disclosures for Interfund Balances and Transfers. Charter school staff and auditors should refer to that statement for further discussion. Sample disclosures for Interfund Balances and Transfers, as well as other disclosures required by GASB 38 can be found in Appendix C of that document. The GASB Codification section 2300.903 also provides illustrations of certain required disclosures.

SECTION III – REPORTING
CHAPTER 3 – NOTE DISCLOSURES

NOTE X. FUND BALANCE APPROPRIATED

General Fund – of the \$ _____ General Fund balance at June 30, 200_, \$ _____ is reserved for encumbrances; and \$ _____ is unreserved and undesignated.

(GASB Cod.Sec.2300.107(1))

STATISTICAL SECTION OF THE CAFR

Overview

The Governmental Accounting Standards Board (GASB) issued Statement No. 44, “Economic Condition Reporting: the Statistical Section”; an amendment of NCGA Statement 1, in May 2004, effective for periods beginning after June 15, 2005. This statement (GASB 44) revises the current statistical section of the Comprehensive Annual Financial Report (CAFR). New Jersey charter schools first implemented GASB 44 for year end June 30, 2006.

GASB 44 was issued to improve the understandability and usefulness of the statistical section information. Although most of the data is reported in the current model, GASB 44 modifies the presentation by establishing five categories – financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information. GASB also addressed what it considered issues in the statistical tables section as currently presented:

- Consistency in statistical reporting among governmental entities,
- Completeness in statistical reporting by the entity, and
- Incorporation of the new government-wide reporting format required by GASB 34 into the entity’s statistical section.

Illustrations

The Department is providing samples of the statistical schedules that use the format of illustrations in GASB 44. The samples are intended to meet the requirements of GASB 44 as applied to New Jersey charter schools. In schedules which had optional placement of certain data or inclusion of data, the Department selected the format that is most consistent with the current schedules and most meaningful to the charter schools. Charter Schools may elect to present additional relevant statistical data, but for purposes of comparability, they should follow the basic format presented in the samples. The illustrations will be available on the NJDOE Office of Fiscal Policy and Planning website <http://www.nj.gov/njded/finance/fp/cafr> with additional guidance on preparation of the schedules.

Years of data

GASB 44 requires the presentation of the information described for the most recent ten years, unless otherwise specified. Governments are not required to report retroactively the charter school-wide financial data (Exhibit NJ J-1 through NJ J-2) but are encouraged to report this information starting with the year they implemented GASB 34. For other schedules, NJDOE strongly encourages reporting ten years data when it is available to provide trend information. Data which was not previously required must be reported at a minimum of one year. When currently reported data differs from the new requirements, charter schools are encouraged to restate the prior data if possible for comparability or explain how the data differs.

- If statistical data cannot be obtained or estimated

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

- Note N/A on the face of the schedule and explain on the schedule why the information is unavailable.

The Outline on the next two pages shows the schedules that will be included. The illustrations on the website assume the charter school is retroactively reporting to the year GASB 34 was implemented, 2002-03 for illustration purposes, and ten years for data that would be available where applicable.

SECTION III – REPORTING
CHAPTER 3 – NOTE DISCLOSURES

OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASB 44)

Revised NJ Exhibit #	Category/New Title
* = 10 years data should be reported unless not available	
Financial Trends Information/Schedules	
J-1	* Net Assets by Component
J-2	* Changes in Net Assets
J-3	* Fund Balances-Governmental Funds
J-4	* Changes in Fund Balances, Governmental Funds
J-5	* General Fund Other Local Revenue by Source (NJ)
Revenue Capacity Information	
J-6 –J-9	
J-9	
Debt Capacity Information	
J-10	* Ratios or Outstanding Debt by Type
Demographic and Economic Information	

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

J-14	*Demographic and Economic Statistics
J-15	Principal Employers, Current and Nine Yrs Ago
OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASB 44) (continued)	
Revised NJ Exhibit #	Category/Title
* = 10 years data should be reported unless not available	
Operating Information	
J-16	* Full-time Equivalent Charter School Employees by Function/Program
J-17	* Operating Statistics
J-18	* School Building Information
J-19	*Schedule of Allowable Maintenance Expenditures by School Facility (NJ)
J-20	Insurance Schedule (NJ)

June 30, 2010

SECTION III – REPORTING
CHAPTER 3 –NOTE DISCLOSURES

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SECTION III - REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

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

The Auditors' Management Report on Administrative Findings – Financial, Compliance and Performance (Auditors' Management Report), is the auditors' report to the board of trustees of their findings and recommendations as a result of the audit. It is issued separately from the CAFR and has the same due date for submission of November 5, 2010. Auditors are encouraged to track the progression of Assembly Bill A415 which proposes to add one month to the audit submission date beginning with the June 30, 2010 audit.

N.J.S.A. 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each charter school ." This statute applies to the Auditor's Management Report filed with the Department of Education. All findings must be included in that report of audit. This includes all items contained in the separate schedule of findings and questioned costs included in the single audit section of the charter school's CAFR. A separate report to the board of trustees outlining findings not included in the report of audit is considered a violation of this statute.

If an auditor detects an error which requires disclosure pursuant to *N.J.S.A.* 18A:23-9, and the auditor believes a recommendation is not needed because the error was insignificant and an isolated unintentional deviation from the Board's standard operating procedure, the auditor must report the item as a finding, state that in his or her opinion no recommendation is necessary, and elaborate on the reason(s) for this opinion.

The report presents the recommendations immediately after the comments. Since this is a stand-alone document, some brief explanation of the statute or procedure for which there is noncompliance should be included so that the reader can understand the issue. The auditor should then include the finding and make a recommendation.

This section provides a sample of the Auditors' Management Report. **It is not meant to be a boilerplate and should be adapted to the circumstances of the individual charter school audit.**

The standard format of the Auditor's Management Report includes the following sections:

- A. Table of Contents
- B. Report of Independent Auditors
- C. Comments , Findings and Recommendations
- D. Schedule of Meal Count Activity
- E. Schedule of Audited Enrollments.

- A. The Table of Contents is for organization purposes and is included to assist the reader in reviewing the report.
- B. The Report of Independent Auditors provides the reader with the basis and intent of the report as well as its distribution. The sample provided in this program may be expanded to include an opinion on the report if that is the individual firm's policy. Either format would be acceptable by the Department of Education. The report should contain both the firm name as well as the signature and license number of the public school accountant. The report should be on firm letterhead and dated the same as the auditors' reports included in the CAFR.

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- C. The Comments, Findings and Recommendations section includes items noted during the audit that require comments and recommendations, including a repeat of any items contained in a separate schedule of findings and questioned costs included in the single audit section of the charter school’s CAFR. Repeat audit findings should be cross-referenced to the current year finding (2009-x). The comments and recommendations must be specific under the following applicable headings:
1. Administrative Practices and Procedures
 2. Financial Planning, Accounting and Reporting
 3. School Purchasing Programs
 4. School Food Service
 5. Student Body Activities
 6. Enrollment System/Charter School Aid
 7. Facilities and Capital Assets
 8. Miscellaneous
 9. Follow-up on prior year findings

Recommendations must be included for all negative comments and areas of noncompliance cited, and at a minimum they are to be grouped in the above headings. The auditor may use sub groupings within these headings.

Auditor recommendations which are not the result of either a required comment or generated by a negative finding but rather represent suggestions to management should be grouped together and included at the end of the Auditor’s Management Report in a section titled “Suggestions to Management”. Management suggestions are not required to be included in the charter school’s Corrective Action Plan.

Required comments must include discussion for the following areas and detailed examples are included in the sample provided:

- Fire Insurance Coverage
- Surety Bonds as to Adequacy (see Note and table below)
 - N.J.A.C. 6A:23-16.4(c) “The independent school auditor shall verify the adequacy of the treasurer’s surety bond which is required by N.J.S.A. 18A:17-32, and shall include appropriate comment, and a recommendation, if needed in the annual school audit report.”
- Whether appropriate billing adjustments have been made for tentative and actual tuition charges.
- Examination of Claims
- A certification that the charter school charged no tuition for any student attending the charter school and all proceeds for a before/after school program were accounted for in an Enterprise Fund.
- Salary Accounts

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- A certification that encumbrances, contracts, salaries and expenditures for state and federally funded projects were in accordance with laws and regulations and in conformity with procurement requirements.
- A certification that charter school funds were provided and expended in the proper GAAP account /code and in accordance with the Charter School Budget Key Summary based upon audit testing of transactions. The comment must include a summary of the sample selection process, conclusions reached and additional procedures performed, if any.
- Whether the charter school has accurately completed its requests for social security reimbursement for TPAF members.
- Advertisement for bids in accordance with statutory requirements. A general statement that bids were advertised where required, with all exceptions listed is satisfactory. Any items of noncompliance should be listed and Title 18A:18A Public School Contracts Law should be quoted.
- The condition of the records, with both positive and negative findings for:
 1. Athletic Association
 2. Food Services
 3. Student Activity Funds
 4. Secretary and Treasurer status reports - monthly reporting of budget versus actuals, cash reports and cash reconciliations (status of Secretary’s accounting records must be noted)
 5. Capital Asset Records

Note: The minimum requirements for the surety bond shall be such percentage of the current year's school budget as is required in the schedule set forth in *N.J.A.C. 6A:23A-16.4*. In fixing the minimum bond, the nearest even \$1,000 shall be used.

Up to \$100,000	20% of Budget (Minimum \$10,000)
\$100,000.01 to \$250,000	\$20,000 + 15% of all over \$100,000
\$250,000.01 to \$500,000	\$42,500 + 13% of all over \$250,000
\$500,000.01 to \$750,000	\$75,000 + 8% of all over \$500,000
\$750,000.01 to \$1,000,000	\$95,000 + 4% of all over \$750,000
\$1,000,000.01 to \$2,000,000	\$105,000 + 2% of all over \$1,000,000
\$2,000,000.01 to \$5,000,000	\$125,000 + 1% of all over \$2,000,000
\$5,000,000.01 to \$10,000,000	\$155,000 + 1/2% of all over \$5,000,000
\$10,000,000.01 and upwards	\$180,000 + 1/4% of all over \$10,000,000

D. The Schedule of Meal Count Activity provides a summary of the results of the audit testing of the number of meals claimed for reimbursement under federal subsidy programs. The schedule calculates an (over)under claim based on the differences between the meals claimed and meal counts verified by the auditor. Eligibility application exceptions/reclassifications should also be quantified and included in this schedule. A finding and recommendation should be included for any differences noted. This schedule is included only if the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133.

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- E. The Schedule of Audited Enrollments provides a summary of the results of the audit testing of the School Register and submission of enrollment counts to the department. It documents the information reported on the submission to the department in comparison to the charter school register. A finding and a recommendation should be included for any differences noted. Additionally, any major deviations from procedures on student record keeping must be noted (i.e. dropping/reporting of students after a consecutive 10 day absence).

Government Auditing Standards require that the schedule of findings and questioned costs included in the single audit section of the CAFR present each finding in a format that addresses the Criteria or specific requirement (what should be); Condition (what is); Context (describe the work performed that resulted in the finding); Effect (the difference between what is and what should be); Cause (why it happened); Recommendation; and, Views of responsible officials and planned corrective actions. Auditors should reference USOMB Circular A-133 (Section .510) for specific requirements on the reporting of audit findings in the Schedule of Findings and Questioned Costs when a federal single audit of the charter school is required. The AICPA published Example 13-6 Illustrative Schedule of Findings and Questioned Costs (Revised for SAS 115) during March 2010 available on the AICPA’s website at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/Illustrative%20Auditor%27s%20Reports%20Under%20OMB%20Final.pdf>.

When repeating the findings in the Auditors' Management Report, auditors may follow that same format or revise the comment to be consistent with the other items presented in the Auditors' Management Report.

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(SAMPLE AMR)

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(SAMPLE AMR)

Report of Independent Auditors

Honorable President and
Members of the Board of Trustees
_____ Charter School
County of _____, New Jersey

We have audited, in accordance with generally accepted audit standards and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Board of Trustees of the _____ Charter School in the County of _____ for the year ended _____, 20__, and have issued our report thereon dated _____, 20__.

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

This report is intended for the information of the _____ Board of Trustees' management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

Licensed Public School Accountant
No. _____
Firm Name

Date _____

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(SAMPLE AMR)

Administrative Findings - Financial, Compliance and Performance

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the Treasurer of School Moneys, the activities of the Board of Trustees, and the records of the various funds under the auspices of the Board of Trustees.

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-13, Insurance Schedule contained in the charter school’s CAFR.

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

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Anne Edwards	Business Office Manager/School Business Administrator	\$10,000.00
Michael E. Leonard	Treasurer	\$145,000.00

There is a Public Employees' Faithful Performance Blanket Position Bond with the Western Surety Company covering all other employees with multiple coverage of \$10,000.00.

Tuition Charges

A review of the financial statements indicated that the charter school charged no tuition for any student attending the charter school and all proceeds for a before/after school program were accounted for in an Enterprise Fund.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

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Payroll Account

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

All payrolls were approved by the designee in the charter school and were certified by the President of the Board and the Board Secretary/Business Administrator.

Salary withholdings were promptly remitted to the proper agencies.

Finding:

The required certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (lead person, principals, and business administrator) to the NJ Department of treasury was not completed or was not filed by the March 15 due date (or was not filed).

Recommendation:

The Board of Trustees should designate someone to prepare and submit the certification as required by N.J.S.A. 18A:14.4 and submit the E-CERT1 if not yet submitted.

Finding:

Reporting of employee compensation for income tax related purposes did not comply with federal (or state) regulations regarding the compensation which is required to be reported. (State what the noncompliance issue was, e.g., lease value of vehicle not included in W-2, compensation at separation was deferred over five years by employee choice and should be included in W-2, fringe benefits were erroneously included in base salary for pension calculation purposes).

Recommendation:

The charter school should establish internal controls to ensure that compensation is properly recorded and reported, including taxable fringe benefits and other additional forms of compensation as applicable. Charter schools should also send corrected reporting to the applicable tax authority.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable.

Finding:

Charter school personnel did not perform an analysis of outstanding purchase orders at June 30 and prepare the separate listings of purchase orders comprising the balance sheet account balances for accounts payable and reserve for encumbrances. Numerous audit adjustments were needed to adjust the accounting records to properly reflect the true balances as of June 30, taking into consideration both the status of the orders at June 30 as well as their subsequent liquidation.

Recommendation:

Purchase orders should be reviewed for proper classification at June 30 as accounts payable or reserve for encumbrances based upon whether the goods have been received or the services rendered. All orders that will not be liquidated within the suggested time-frame of 60 to 90 days of year end should be cancelled.

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Reconciliations of the adjusted June 30 balances for accounts payable and reserve for encumbrances should be performed and the required schedules should be prepared for the year end audit.

Finding:

Payments were made without proper authorization for amounts which exceeded the original approved purchase order amounts.

Recommendation:

The School Business Administrator should review the payments and purchase orders to ensure that all payments are properly authorized and consistent with *N.J.A.C.* 6A:23A-6.10(a)

Travel:

Finding:

The charter school did not obtain prior written approval of the Executive County Superintendent for a travel event that exceeded \$5,000 as required by *N.J.A.C.* 6A:23A-5.9.

Recommendation:

The charter school should implement a process for submitting requests for approval to the Executive County Superintendent at least 10 working days in advance of a travel event with a total cost exceeding \$5,000.

Finding:

The charter school did not have an approved board travel policy as required by *N.J.A.C.* 6A:23A-6.13 and *N.J.S.A.* 18A:11-12.

Recommendation:

The charter school board of trustees should adopt a travel policy that complies with *N.J.S.A.* 18A:11-12.

Finding:

Payment for travel by an employee was approved after completion of the travel event.

Recommendation:

The charter school board of trustees should revise its travel policy to ensure that payments will not be ratified after completion of the travel event unless the policy excludes regular business travel from the pre-approval requirement. *N.J.A.C.* 6A:23A-7.2(d).

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with the *N.J.A.C.* 6A:23A-16.2 and line item details as described in the Budget Summary Key as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with *N.J.A.C.* 6A:23A-8.2. As a result of the procedures performed, a transaction error rate of 1.90% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

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A. General Classification Findings

Finding:

During our test of transactions it was noted that the charter school misclassified and misbudgeted professional development costs for non-instructional staff as Instructional Purchased Professional/Technical Services (line 45). The expenditure and related appropriation was reclassified to Administrative Costs - Purchased Professional/Technical Services (line 55) for financial statement presentation purposes.

Recommendation:

Charter school personnel should reference Charter School Budget Key Summary and other available reference materials, such as *The Uniform Minimum Chart of Accounts (Handbook 2R2) for New Jersey Public Schools, 2003 Edition* to be in compliance with N.J.A.C. 6A:23A-16.2(f)

B. Administrative Classification Findings

Finding:

During our test of transactions it was noted that the salary of the chief school administrator was allocated to Instructional Staff Training Services. The expenditure and related appropriation were reclassified to Support Services – General Administration for financial statement presentation purposes.

Recommendation:

See recommendation below.

Finding:

During our test of transactions it was noted that the salary of the principal was allocated to the plant maintenance and transportation functions. The expenditure and related appropriation were reclassified to Support Services – School Administration for financial statement presentation purposes.

Recommendation:

See recommendation below.

Finding:

During our test of transaction it was noted that legal fees for the placement of a special education student was charged to Other Support Services – Student Extraordinary Services. The expenditure and related appropriation was reclassified to Support Services - General Administration for financial statement presentation purposes.

Recommendation:

See recommendation below.

Finding:

During our test of transactions it was noted that there were no salary expenditures of clerical staff recorded in Central Services as had been in prior years. Clerical positions that were recorded in the prior year in central services were not eliminated but instead reclassified to Attendance without proper documentation to support this change.

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Recommendation:

Charter Schools should reference *The Uniform Minimum Chart of Accounts for New Jersey Public Schools, 2003 Edition* and other available reference materials, such as the Budget Guidelines for the proper classifications required to be in compliance with *N.J.A.C. 6A:23A-16.2(f)*.

Finding:

During our test of transactions it was noted that the salary of the business administrator was allocated to instruction without documentation that supports the business administrator provided direct classroom instruction as part of the charter school’s regular curriculum.

Recommendation:

See recommendation below.

Finding:

During our test of transactions it was noted that the salary of the chief school administrator was allocated to instruction without documentation that supports the chief school administrator provided direct classroom instruction as part of the charter school’s regular curriculum.

Recommendation:

The allocation of administrative salaries to instruction or support functions should be supported by documentation providing a reasonable allocation method, such as time sheets or teaching roster to support direct classroom instruction as part of the regular curriculum.

Finding:

During our test of transactions it was noted that many of the charter school’s responses to the required completion of the charter school questionnaire were incomplete.

Recommendation:

The charter school should compare the completed charter school questionnaire and the payroll registers and an administrative certificated staff roster, or similar document, to assure accuracy and completeness of the charter school questionnaire.

Board Secretary’s Records

Our review of the financial and accounting records maintained by the business office disclosed the following items.

Finding:

Bids received were not summarized in the minutes (*N.J.S.A. 18A:18A-21*).

Recommendation:

Bids received should be summarized in the minutes of the Board Secretary.

Finding:

Acknowledgment of the Board's receipt (non-receipt) of the Board Secretary’s and Treasurer’s monthly financial reports was not included in the minutes.

Recommendation:

The Board should acknowledge in the minutes receipt (non-receipt) of the Board Secretary’s and Treasurer’s monthly financial reports.

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Finding:

Several budgetary line accounts were over-expended during the fiscal year and at June 30 despite the board secretary’s monthly certification to the contrary (*N.J.A.C. 6A:23A-16.10*).

Recommendations:

Approved budgetary line accounts should not be overexpended. The Business Office should not approve the issuance of purchase orders, which would cause overexpenditure in the line account to be charged, prior to the Board approving the requested transfer of additional appropriations to cover such orders.

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

Finding:

Payments to vendors were made prior to the receipt of goods.

Recommendation:

Payment should not be made until the receipt of goods.

Finding:

The capital asset records were not updated for the additions and disposals of capital assets made during the year.

Recommendation:

The Charter school should have adequate internal control procedures over its capital assets, including periodic update of the general ledger for additions and disposals.

Finding

The Charter school is not maximizing its efforts under the Special Education Medicaid Initiative (SEMI) Program for obtaining Federal funding for special education services.

Recommendation: The Charter school should establish procedures to ensure that it maximizes its efforts under SEMI for obtaining Federal funding for special education services.

Finding:

The charter school made board approved line-item transfers during the year but did not maintain a monthly transfer report and year-to-date transfers in a format prescribed by the Commissioner or approved by the County Superintendent.

Recommendation:

The charter school should maintain a monthly and year-to-date report of all line item transfers in a format prescribed by the Commissioner or approved by the County Superintendent.

Treasurer's Records

The following items were noted during our review of the records of the Treasurer.

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Finding:

The Treasurer did not perform cash reconciliations for the general operating account, payroll account, or payroll agency account (*N.J.S.A. 18A:17- 36*).

Recommendation:

Each month, the Treasurer should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account.

Finding:

Not all cash receipts were promptly deposited.

Recommendation:

The Treasurer should promptly deposit all cash receipts.

Finding:

The Treasurer’s records were not in agreement with the records of the Business Office. Also, the Treasurer’s cash balance for the general operating account was not in agreement with the reconciled cash balance as determined during the audit.

Recommendation:

The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Business Office.

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

The E.S.E.A./N.C.L.B. financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the projects under Titles I and VI of the Elementary and Secondary Education Act as amended and reauthorized.

The study of compliance for E.S.E.A. indicated the following areas of noncompliance and/or questionable costs.

Finding:

Salary charges were not documented each pay period. Allocated salary charges for teaching staff members were not supported by employee time sheets.

Recommendation:

The allocation of salaries among federal/state grants should be supported by employee time sheets.

Findings:

Three A.B.C. computers and software costing \$3,300 were charged to Title I-Part A. These items were not labeled Title I nor were they located in the designated Title I classrooms. The computer equipment and software were located in an area utilized by the general school population. (Serial Nos. xxxxx,xxxxx and xxxxx).

Printing costs of \$1,200 for a brochure unrelated to E.S.E.A. were charged to the Title I-Part A grant.

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Recommendation:

Only those costs associated with the federal/state grants should be charged to the grant.

Findings:

Due to Grantor balances were not returned/disposed of in accordance with the grant agreement.

Recommendation:

Due to Grantor balances must be returned immediately with the submission of the final grant expenditure report.

Other Special Federal and/or State Projects

The charter school’s Special Projects were approved as listed on Schedule A and Schedule B located in the CAFR.

Our audit of the federal and state funds on a test basis, indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

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

The study of compliance for the special projects indicated the following areas of noncompliance:

I.D.E.A. Part B

Finding:

Separate accounting was not maintained for each approved project.

Recommendation:

The Board Secretary should maintain separate accounting with the account coding structure of the minimum outline for each state approved project within a federal/state grant program.

Finding:

Grant application approvals and acceptance of grant funds were not made by board resolution or recorded in the minutes.

Recommendation:

All filings of federal and state grant applications and subsequent acceptance of grant funds should be approved by board resolution and recorded in the minutes.

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursements (electronic, but charter schools can print out the DOENET screen for an auditor) filed with the Department of Education for charter school employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

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School Purchasing Programs

Contacts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law), the associated rules and related information on the statute, and school contracts in general is available on the website <http://www.state.nj.us/njded/pscl/index.html>.

Auditors should refer to Section I, Chapter 5, Bids & Contracts/Purchasing for highlights of *N.J.S.A.* 18A:39-3 and 4.

Effective July 1, 2005 and thereafter the bid thresholds in accordance with *N.J.S.A.* 18A:18A-3 (as amended) and 18A:39-3 are \$21,000 and \$16,200 respectively.

The charter school board of trustees has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where questions arise as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

Based on the results of my examination, I did not note any individual payments, contracts, or agreements made for the performance of any work or goods or services, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of *N.J.S.A.* 18A:18A-4, amended.

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

Finding:

A Widget computer costing \$18,000.00, not manufactured in the United States, was purchased even though bids submitted for American made computers met the specifications (*N.J.S.A.* 18A:18A-20, amended). (Serial No. XXXX)

Recommendation:

American goods and products should be used where possible.

Finding:

Notice of revisions to bid specifications for purchase of telephone equipment (non construction contracts) was not provided to a vendor who had received a bid package. (*N.J.S.A.* 18A:18A-21c, amended)

Recommendation:

The charter school should notify any person who has submitted a bid or received a bid package of revisions to bid specifications. One of three permissible means of notification should be used a) in writing by certified mail, b) by certified facsimile transmission, i.e., the sender's facsimile machine produces a receipt showing date and time of transmission and that the transmission was successful or c) by a delivery service that provides certification of delivery to the sender.

Finding:

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The purchase of a Fun video center costing \$19,500.00 and designated as made pursuant to a state contract was awarded to a vendor who did not have the state contract for the specific equipment purchased, according to the state contract award bulletin on file in the charter school's office.

Recommendation:

Contracts awarded to vendors pursuant to a state contract should be made for only those items specifically included in the state contract award bulletin for such vendor.

Finding:

Bids received, resulting in a capital improvement costing \$23,000.00, performed by MLA Construction Co., were not publicly unsealed and announced in the presence of the parties bidding or their agents (N.J.S.A. 18A:18A-21, amended).

Recommendation:

All bids should be unsealed and announced publicly in the presence of the parties bidding or their agents.

School Food Service

Note: The School Food Service section of the Auditor’s Management Report must contain statements such as those noted below (with the respective related findings, if applicable, cross-referenced to the CAFR). Also, please indicate “No Exceptions Noted” when there are no findings.

The financial transactions and statistical records of the school food services fund were reviewed. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis.

Cash receipts and bank records were reviewed for timely deposit.

(If applicable) The Charter School utilizes a food service management company and is depositing and expending program monies in accordance with *N.J.S.A.* 18A:17-34, and 19-1 through 19-4.1. Provisions of the FSMC contract/addendum were reviewed and audited.

Expenditures should be separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used.

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did not exceed three months average expenditures.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Services employees authorized by the board of trustees. No exceptions were noted.

The number of meals claimed for reimbursement was compared to sales and meal count records. As part of the claims review process the Edit Check Worksheet was completed. Reimbursement claims were submitted/certified in a timely manner.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served was compared to the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced price meal

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and free milk policy was reviewed for uniform administration throughout the school system. Sites approved to participate in Provisions were examined for compliance with all counting and claiming requirements. The required verification procedures for free and reduced price applications were completed and available for review.

Food Distribution Program commodities were received and a single inventory was maintained on a first-in, first-out basis. No exceptions were noted.

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

Auditor’s Note: The AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits*, section 7.13 defines food commodities distributed as non-cash federal financial assistance. The total value of the commodities received as well as the value distributed by charter school must be reflected as revenue and expenditures, respectively.

In the event that single inventories are not maintained sufficiently to allow the auditor to include this activity in the financial statements and schedules, a finding and recommendation must be included in the Auditor’s Management Report.

Finding:

Food Service accounting records maintained by the Charter School’s administration office did not agree with the records maintained by the Food Service Director.

Recommendation:

The Charter School should establish procedures that will reconcile the food service director’s records and the food service records maintained by the central administration office.

Finding:

Meals claimed did not agree with meal count records resulting in an overclaim, as detailed on the Schedule of Meal Activity (See Section II-60).

Recommendation:

Prior to submitting reimbursement vouchers to the N.J. Department of Agriculture, the meals claimed should be verified to the meal count activity records and Edit Check Worksheets.

Findings:

A number of exceptions were noted regarding free and reduced price lunch applications. Applications were not properly completed; household income was not properly applied when determining free and reduced price and several applications were not available for audit. The resulting overclaim/underclaim has been identified by the auditor on the Schedule of Meal Count Activity.

Recommendation:

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The free and reduced applications/documentation should be properly determined, completed as required and available for audit. Incomplete or missing applications should be included in the paid (denied) category.

Finding:

Applications were placed in the incorrect category. The resulting overclaim/underclaim has been identified by the auditor on the Schedule of Meal Count Activity.

Recommendation:

The free and reduced applications should be reviewed by charter school personnel and properly classified as free, reduced, or paid.

In accordance with AICPA Statement of Auditing Standards (SAS) #70, as amended by SAS 88 (effective February, 2000), auditors must obtain an understanding of internal controls placed in service by service organizations whose services are part of the entity’s information system. Food service management companies must have a service audit performed by an independent audit firm engaged by the food service management company. This service audit must report on the food service management company’s control structure policies and procedures. It is the responsibility of the charter school management to award contracts to a food service management company only if such a service audit report has been issued. The requirement for provision of the SAS 70, as amended by SAS 88, report has been incorporated into the standard Food Service Management Company Contract. If the charter school is unable to provide such a service audit to the local charter school auditor, a negative finding and recommendation must be included in the Auditors’ Management Report.

Student Body Activities

During our review of the student activity funds, the following items were noted.

Finding:

The Board had no policy, which clearly established the regulation of student activity funds.

Recommendation:

The Board should approve a policy establishing the regulation of student activity funds.

Finding:

Not all cash receipts were promptly deposited.

Recommendation:

All cash receipts should be promptly deposited.

Finding:

Not all cash disbursements had proper supporting documentation.

Recommendation:

Proper supporting documentation should be maintained for all cash disbursements.

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CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

Enrollment counts and submissions to the Department

Our audit procedures included a test of enrollment information reported on October 15, 2009 and the last day of school for on-roll, special education, bilingual and low-income.

Finding:

The charter school had no written procedures for the proper maintenance and recording of student enrollment data.

Recommendation:

We recommend that the charter school prepare written procedures detailing the process for the two required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count.

The charter school maintained written procedures appear to be adequate for the recording of student enrollment data

Finding:

The charter school had documentation on file for Free and Reduced Lunch but never forwarded copies to the resident district.

Recommendation:

All documentation, for which state aid is based, must be forwarded to the resident district.

Finding:

There were two instances where a student enrolled in the charter school was not in attendance for 10 days and was not dropped from the charter school’s register until 20 days after the last known day of attendance. According to the Department’s school register instructions, the charter school’s responsibility is to ensure the attendance of those students enrolled in their school. A student who has been absent 10 days for an unknown reason must be reported as a dropout. If the student is reported as a dropout, the charter school must immediately notify the school district of residence in writing of this condition on the 10th day.

Recommendation:

The charter school must make a concerted effort to notify the resident district of school dropouts in a timely manner in accordance with school register instructions.

Finding:

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The charter school reported a student on the DOEnet and subsequently received charter school aid for a special education student who is attending a private school for the disabled. The educational costs for the outside placement at the private school are a paid by the resident school district and not the charter school.

Recommendation:

The charter school must establish and implement procedures to ensure that any student attending a private school for the disabled is “dropped” from the charter school aid reporting to ensure that the district of residence is not double-billed for the student.

Finding:

The charter school reported full Average Daily Enrollment for a student on the DOEnet and subsequently received 100% of eligible charter school aid for student who is attending a county vocational program. County vocational schools are funded directly by the state for all enrolled students.

Recommendation:

The charter school must establish and implement procedures to ensure that the enrolled days of any student attending a county vocational program are reduced in the DOEnet to reflect that the student is only enrolled at the charter school part-time so as to ensure that the charter is not receiving overpayment from the district of residence.

Finding:

The charter school reported special education classification on the DOEnet for a student who was identified and began receiving related services subsequent to October 15th. Students identified after October 15th must be reported in the subsequent year..

Recommendation:

The charter school must establish and implement procedures to ensure reporting of Special Education Categorical Aid only for students who are identified and receiving related services prior to the October 15 ASSA reporting deadline.

Finding:

It was noted that the charter school was utilizing public school funds for non-mandated transportation of students to and from school (courtesy busing) in violation of N.J.S.A. 18A:39.

Recommendation:

The charter school must discontinue this practice immediately. If the charter school wishes to provide this service, it may either charge the parents for the full cost of the service or seek non-public sources of funding for the service.

Follow-up on Prior Year Findings

In accordance with government auditing standards, our procedures included a review of all prior year recommendations. Corrective action had been taken on all prior year findings with the exception of the following, which is repeated in this year’s recommendations noted as current year finding “2009-X”:

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Approved budgetary line accounts should not be overexpended (2009-X).

We have also reviewed any findings contained in the audit reports issued by the Office of Fiscal Accountability and Compliance (OFAC). Corrective action had been taken on all findings in the report dated XX/YY/ZZ. This finding is also included in the Schedule of Findings and Questioned Costs.

(If there were no prior year findings, indicate “Not Applicable” in this section. Do not omit the section.)

Acknowledgment

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

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CHAPTER 4 – AUDITOR'S MANAGEMENT REPORT (AMR)

School Food Service

SCHEDULE OF MEAL COUNT ACTIVITY

ANYTOWN CHARTER SCHOOL
FOOD SERVICE FUND
NUMBER OF MEALS SERVED AND (OVER) UNDERCLAIM
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

PROGRAM	MEAL CATEGORY	MEALS CLAIMED	MEALS TESTED	MEALS VERIFIED	DIFFERENCE	RATE ^a	(OVER) UNDER CLAIM ^b
National School Lunch (Regular Rate)	Paid	425,000	300,000	296,000	(4,000)	.25	\$(1,000.00)
	Reduced	50,000	50,000	48,600	(1,400)	2.28	(3,192.00)
	Free	5,820	5,820	5,000	(820)	2.68	(2,197.60)
	TOTAL	480,820	355,820	349,600	(6,220)		\$(6,389.60)
School Breakfast (Regular Rate)	Paid	125	125	125	-0-	.26	\$-0-
	Reduced	300	300	360	60	1.16	69.60
	Free	3,868	3,868	3,808	(60)	1.46	(87.60)
	TOTAL	4,293	4,293	4,293	-0-		\$(18.00)
Special Milk	Paid	2,500	2,500	2,500	-0-	.16	\$-0-
	Free	7,500	7,500	7,500	-0-	Average Cost	-0-
	TOTAL	10,000	10,000	10,000	-0-		\$-0-
After School Snacks	Paid	350	350	350	-0-	.06	-0-
		-0-	-0-	-0-	-0-	.37	-0-
	Free (Area Eligible)	475	475	501	26	.74	19.24
	TOTAL	825	825	851	26		\$19.24
TOTAL NET OVERCLAIM							\$(6,388.36)

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CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

To link to the sample Schedule of Audited Enrollments as of October 15th, click on the following link:

[Audited Enrollments](#)

[Select the tab entitled “October 15”](#)

To link to the sample Schedule of Audited Enrollments as of the last day of school, click on the following link:

[Audited Enrollments](#)

[Select the tab entitled “Last Day of School”](#)

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SCHEDULE OF AUDITED ENROLLMENTS

**ANYTOWN CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF LAST DAY OF SCHOOL YEAR 2010**

Grades	1		2		2a.		2b.		3		3a.			
	Submission to DOE reported On Roll	Reported on workpapers	Verified signed registration forms	Verified # days enrolled	Errors	Special Ed/ Bilingual	Verified documentation	Errors	Service Provided	Verified # days	Low Income	Verified documentation	Errors	
Kindergarten	250	80	75	5	76	4	10	8	2	9	1	50	43	7
One	125	85	84	1	80	5	4	3	1	4	0	45	43	2
Two	125	85	82	3	78	7	6	5	1	6	0	60	58	2
Three														
Four														
Five														
Six														
Seven														
Eight														
Nine														
Ten														
Eleven														
Twelve														
Total	500	250	241	9	234	16	20	16	4	19	1	155	144	11
Percentage						6.4%			20.0%		5.0%			7.1%

1. Determine sample for each count:
Total population is 500 students(Excel Spreadsheet)
Sample size for each count is 500 times 50%=250 students ensuring that all student records are audited by the second count sample.
Example: Sample size for each count: count 1 = 250, count 2 = 250. Total sample = 500.
Distribute the sample among the grades in the same proportion as the whole population.
Use random selection without replacement to choose sample.
Test all the specifics to the student selected in the sample.(i.e. Spec. Ed., Bilingual, Low Income, etc.)
The same student should not be chosen more than once for any of the two counts, therefore 500 different students should be tested.
Pursuant to N.J.A.C. 6A:11-7.2(j)1,4: The two counts sampled will be verification of the number of days enrolled and verification to the signed registration forms.
2. Of the sample selected, the students identified as Special Ed &/or Bilingual.
 - 2a. Verify classification to the students IEP.
 - 2b. Verify the number of days that services were provided.
 - 2c. Verify that student is not enrolled in a private school for the disabled.
 - 2d. Verify that student was identified and began receiving related services prior to October 15.
3. Of the sample selected, identify the students classified as low income.
 - 3a. Verify free lunch application &/or documentation from the charter/district.
 - 3b. Verify whether student is enrolled in a county vocational program

SCHEDULE OF AUDITED ENROLLMENTS

**ANYTOWN CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2009**

Grades	1		2		2a.		2b.		3		3a.			
	On Roll	DOE reported	Reported on workpapers	Verified signed registration forms	Errors	Verified # days enrolled	Special Ed/ Bilingual	Verified documentation	Errors	Service Provided	Verified # days	Low Income	Verified documentation	Errors
Kindergarten	250	80	80	76	4	77	3	7	6	1	6	1	52	48
One	125	85	85	81	4	79	6	8	5	3	5	3	42	40
Two	125	85	85	82	3	82	3	5	5	0	4	1	45	40
Three														
Four														
Five														
Six														
Seven														
Eight														
Nine														
Ten														
Eleven														
Twelve														
Total	500	250	250	239	11	238	12	20	16	4	15	5	139	128
Percentage					4.4%		4.8%		20.0%		25.0%			7.9%

- Determine sample for each count:
Total population is 500 students(Excel Spreadsheet)
Sample size for each count is 500 times 50%=250 students ensuring that all student records are audited by the second count sample.
Example: Sample size for each count: count 1 = 250, count 2 = 250. Total sample = 500.
Distribute the sample among the grades in the same proportion as the whole population.
Use random selection without replacement to choose sample.
Test all the specifics to the student selected in the sample.(i.e. Spec. Ed., Bilingual, Low Income, etc.)
The same student should not be chosen more than once for any of the two counts, therefore 500 different students should be tested.
Pursuant to N.J.A.C. 6A:11-7.2(j)1,4: The two counts sampled will be verification of the number of days enrolled and verification to the signed registration forms.
- Of the sample selected, the students identified as Special Ed &/or Bilingual.
 - Verify classification to the students IEP.
 - Verify the number of days that services were provided.
 - Verify that student is not enrolled in a private school for the disabled.
 - Of the sample selected, identify the students classified as low income.
 - Verify free lunch application &/or documentation from the charter/district.
 - Verify whether student is enrolled in a county vocational program. ADE is adjusted in the Final Enrollment count

SECTION III - REPORTING
CHAPTER 5 - AUDIT SUMMARY WORKSHEET DISKETTE

All charter schools are required to have their auditor complete and submit the Audit Summary (Audsum) Worksheet(s) computer diskette and the CAFR and then transmit the auditor completed Audsum data to the NJ Department of Education via the DOENET. The department uses this information for various reporting and analytical purposes. The information from the Audsum diskette will be downloaded into the actual column of the DOE budget software used by the charter school. Charter schools cannot access and revise this data via the budget program if the data is incorrect. Only the auditor can make corrections through the submission of the revised Audsum diskette. For revisions, both the auditor and the charter school board secretary/business administrator must sign a new letter of transmittal and revised CAFR pages must also be submitted, if applicable. **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. Both auditor and charter school personnel are advised to pay particular attention to the accuracy of the data submitted to avoid having to resubmit the data!**

Auditor's Note – The Department **highly recommends** that the Audsum be completed prior to filing the CAFR. The Audsum has numerous edits that can flag common reporting errors such as the reporting of special education program expenditures, food service operations, and fund balances.

An audit report **will be considered incomplete** until the required Audsum diskette is received by the statutory deadline.

Fund Balance (General Fund)

Separate lines for the breakout of the June 30 fund balance (general fund) are provided in the Audsum diskette. Corresponding lines for the July 1 beginning fund balance classifications are also provided to enable reporting the appropriate balances. Governmental Accounting Standards Board Statement No. 54 (GASB 54) is not required for June 30, 2010 financial statements. Charter schools that choose to early implement this statement must provide audsum data using the existing terminology. GASB 54 will be required for June 30, 2011 financial statements and audsum will be modified at that time. There should be no fund balance for ARRA State Fiscal Stabilization Funds (SFSF) recorded in the general fund, ARRA-ESF and ARRA-GSF. Any ARRA ESF or ARRA-GSF that was drawn down and unexpended should be reported as deferred revenue.

For those charter schools that received ARRA Stabilization funds, the combined appropriations from the Budgetary Comparison Schedule should be entered in the Audsum.

The following list is to be followed for the classification of ending fund balance – general fund:

- Legal reserves (10010)
- Reserved for encumbrances (10020)
- Reserve for encumbrances – Capital Projects Funds (10030)
- Maintenance reserve account (10045)
- Unreserved – undesignated general fund balances (10070)
- Unreserved fund balance that is designated for subsequent year's expenditure (10075)

SECTION III - REPORTING
CHAPTER 5 - AUDIT SUMMARY WORKSHEET DISKETTE

Transfer of Surplus to the Capital Project Fund

When specifically approved by the Commissioner, charter schools may transfer surplus from the general fund to the Capital Projects fund. Such transfers should be shown in the CAFR as an operating transfer with the appropriate disclosure made in the notes to the financial statements. When reporting on the Audsum diskette, the restated balances after the transfer should be reported as the July 1 balances.

Audsum Questions Related to Conditions for Appointment of State Monitor or Forensic Audit

Questions regarding the auditor opinions, material weaknesses, repeat audit findings, and return of federal funds are included in Audsum to enable the department to determine whether a charter school meets conditions for either appointment of a state monitor or a forensic audit. *N.J.S.A. 18A:7A-55* as amended by P.L 2007, c. 53, authorizes the Commissioner to appoint a State monitor for charter schools which meet criteria specified in the law, and pursuant to *N.J.S.A. 18A: 7A-57*, the state auditor will perform a forensic audit if a charter school has a general fund deficit and meets one of the criteria for State monitor.

Pre-Operating Revenues and Expenditures

In the first year of operations for a charter school, there may be expenses for the first 6 to 18 months prior to the charter school commencing operations. Auditors are instructed to include the revenues and expenditures for the start-up period in the FY 2009-2010 Audsum. Include year-end enrollment data.

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

TO BE COMPLETED BY THE BOARD SECRETARY/BUSINESS ADMINISTRATOR

Questionnaire

The Questionnaire is to be completed annually by the charter school board secretary/business administrator for use by public school accountants when reviewing compliance with account coding of administrative expenditures. The charter school auditor's will review this questionnaire in conjunction with their test of transactions and include a finding and recommendation for questionnaires substantially incomplete or inaccurate. In addition, charter schools are required to have ready for audit a listing of all staff positions requiring either a school administrative, principal or school business administrator certificate as detailed on item number 18 in Section III-6.

Checklists

Three checklists (Current Operating Funds, Student Activity Fund, and Food Service Fund) of actions to be performed or documents to have available in advance of the audit are provided here to assist business administrators in preparing for the year end audit. These checklists may be modified by the audit firm to incorporate additional documents as needed.

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

ADMINISTRATIVE CLASSIFICATIONS QUESTIONNAIRE

(To Be Completed by the Board Secretary/ Business Administrator)

Auditors should retain this questionnaire in their workpapers. The department may at a future time request this document for use in assessing potential need for further guidance and training.

1. a. Were all salaries of administrative staff requiring a school administrative, principal or school business administrative certificate recorded in administrative functions 230, 240, and 25X?
Yes _____ No _____

b. If no to 1a, is the coding consistent with prior years? Yes _____ No _____

c. If no to 1a, please list the position, the account coding and the rationale for account classification other than administration (attach additional sheet if necessary):

2. Is there a decline in administrative expenditures relative to total general fund expenditures from the previous year? Yes _____ No _____

If yes, is the decline the result of reclassification or allocation of salaries? Yes _____ No _____

Please provide an explanation for any fluctuation (attach additional sheet if necessary):

3. Were there any salaries recorded in functions 230, 240, and 25X in the prior year and not in the current year? Yes _____ No _____

If yes, please list the position, the account coding and the rationale for the change (attach additional sheet if necessary):

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

4. Were there any non-certificated administrative staff allocated to a support function (exclude clerical positions)? Yes _____ No _____

If yes, please list the position, account classification, and allocation method used (attach additional sheet if necessary):

5. Were any supervisor positions, with the exception of “supervisors of instruction,” requiring a principal or supervisory certification allocated to a support function? Yes _____ No _____

If yes, please list the position, account classification, and allocation method used (attach additional sheet if necessary):

6. Did any of the administrative functions (functions 230, 240, and 25X) have salary expenditures for administrators and no related clerical support salaries? For example, salaries are recorded in function 240-103, salaries of principals/vice principal but nothing was reported in function 240-105, salaries of secretarial and clerical assistants. Yes _____ No _____

If yes, please list the function(s) and rationale (attach additional sheet if necessary):

7. Were there any other line-item transfers or additional appropriations of surplus or unbudgeted revenue to an administrative function? Yes _____ No _____

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

**CHECKLIST FOR ANNUAL AUDIT
CURRENT OPERATING FUNDS**

NAME OF SCHOOL

SCHOOL YEAR 2009-2010

- () 1. Copy of final budget approved by the board of trustees, including supporting documents and statements and any attachments.
- () 2. The entries in the financial records of the Board Secretary and the Treasurer of school moneys must be up-to-date and balances reconciled.
 - a. Complete all posting and closing entries for all financial records, including the net payroll account and payroll agency accounts as of June 30, 2010.
 - b. All adjusting entries must be made as of June 30 to reflect the accounting records on a modified accrual basis.
 - c. Annual report submitted to the board pursuant to *N.J.S.A. 18A:17-10*.
 - d. All entries in the Athletic Association records must be up-to-date and records must be balanced.
- () 3. Complete Comprehensive Annual Financial Report (CAFR) as June 30, 2010.
- () 4. Trial balance reflecting adjusting and closing entries as of June 30, 2010, as support for the CAFR.
- () 5. All books and records of the board secretary/business administrator but not limited to:
 - a. General Journal for FY 2009-10
 - b. Special Purpose Journals for FY 2009-10
 - c. General Ledgers for FY 2009-10
 - d. Revenue Subsidiary Ledgers for FY 2009-10
 - e. Expenditure Subsidiary Ledgers for FY 2009-10
 - f. Chart of Accounts for FY 2009-10
- () 6. All purchase orders for the year.
 - a. Analyses of open purchase orders at June 30, 2010.
 - b. Separate lists must be prepared for those orders representing accounts payable at June 30th and those orders that will be liquidated and paid in the subsequent fiscal years.
 - c. The total of these lists should agree with the June 30th general ledger balances for accounts payable and reserve for encumbrances, respectively.

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

- () 7. Monthly reconciliations of all checking accounts must be prepared and available.
 - a. Bank statements for 13 months, including related canceled checks, debit and credit memos, returned by the bank and duplicate deposit tickets for the period July 1, 2009 through July 31, 2010.
- () 8. All cash on hand including the petty cash fund must be deposited in the bank depository by June 30, 2010.
- () 9. List of Investments, if any, outstanding as of fiscal year-end.
- () 10. Copies of all applications, third party contracts (when applicable), revenue verification notices, all approved budgets and budget modifications in connection with State and Federal Aid, including information on all approved special programs or projects.
- () 11. Monthly statutory financial statements of the Secretary (Form A-148) and Treasurer (A-149) per *N.J.S.A.* 18A:17-9 and 36.
- () 12. Minutes of board meetings, which should be reviewed prior to the audit to determine whether the proceedings are complete and properly signed. In connection with Board action, were the following subject matters recorded in the minutes?

Full spread of the adopted detailed budget

N.J.S.A. 18A:22-8

Board resolutions and full detail of Budget
Transfers of line items with the budget or from
surplus.

N.J.S.A. 18A:22-8.1 as amended by P.L. 2004, c.73.

Board resolutions with two-thirds affirmative
vote for transfers (if applicable)

N.J.S.A. 18A:22-8.1, as amended by P.L. 2004, c.73

Organization Meeting

N.J.S.A. 18A:10-5

Establishment of Petty Cash Fund

N.J.S.A. 18A:19-13, *N.J.A.C.* 6:23-2A.9

Official Depositories

N.J.S.A. 18A:17-34

Official Newspaper Designated

N.J.S.A. 18A:18A-21

Bill or Voucher List

N.J.S.A. 18A:19-4

Change Orders on Awarded Contracts

N.J.A.C. 6A:23A-22.11

Summary of Bids Received

N.J.S.A. 18A:18A-21

Award of Contracts Bid

N.J.S.A. 18A:18A-36, 37; and *N.J.S.A.* 18A:18A-
3,4,

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

Designation of EUS

N.J.S.A. 18A:18A-5 and N.J.S.A. 18A:18A-37

Designation of Qualified Purchasing Agent

N.J.S.A. 18A:18A-3

Authorization of Competitive Contracting Process

N.J.S.A. 18A:18A-4.1, 4.3, 4.4, and 4.5

Payment of Emergency Contracts

N.J.S.A. 18A:18A-7

Capital Improvement Authorizations, Proposals and/or Adoptions

N.J.S.A. 18A:22-18 and N.J.S.A. 18A:22-39

Monthly Financial Report of the Treasurer of School Moneys (Form A-149)

N.J.S.A. 18A:17-36

Monthly Financial Report of the Secretary (Form A-148)

N.J.S.A. 18A:17-9

Investments-Authorization, Purchase and Recording

N.J.S.A. 18A:20-37 and N.J.S.A. 18A:20-38

Reading and discussion of recommendations of the Annual Report of Audit

N.J.S.A. 18A:23-5

Applicable Resolutions of Cancellations

Establishment of Capital Reserve Fund

N.J.S.A. 18A:7G-31

Establishment of Emergency Reserve Fund

N.J.S.A. 18A:7F-41(c)1

Election to defer 50% of the April 2009 PERS (pension) payment (if applicable)

N.J.S.A. 43:15A-24

Required Board of Trustee Policies

Travel and Expense Reimbursement Policy

N.J.S.A. 18A:11-12, N.J.A.C. 6A:23A-6.13, 7.2

Public Relations and Professional Services Policy

N.J.A.C. 6A:23A-22.6

Nepotism Policy

N.J.A.C. 6A:23A-22.10

Contributions & Contract Awards Policy

N.J.A.C. 6A:23A-2.11

Policy on Exceeding Purchase Order Amounts

N.J.A.C. 6A:23A-22.15

SECTION III – REPORTING
CHAPTER 6 – AUDIT CHECKLIST & QUESTIONNAIRE

- () 13. All vouchers, properly documented, and purchase orders should be available for inspection and review. The Business Administrator should be certain that all paid claims have been properly approved for payment, recorded in the minutes, and that affidavits or declarations have been completed on those exceeding one hundred fifty dollars (*N.J.S.A.* 18A: 19-3).
- () 14. A separate file including copies of all legal advertisements, such as the adopted budget, requests for bids, and resolutions awarding contracts or agreements for professional services.
- () 15. All contracts, agreements, leases, and bids received in connection with the advertising referred to above. Contracts, which the board of trustees has entered into with the State Division of Purchase and Property in the purchase of materials, supplies or equipment for the charter school, must be available for review by the charter school auditor.
- () 16. A schedule of all insurance coverage and fidelity bond coverage in effect during the year, and the related policies or continuation certificates on hand.
- () 17. All employee contracts and a schedule of board approved salaries; a schedule of fringe benefits and post retirement payments by employee, type of benefit and dollar amount/value; authorization for non-contractual fringe benefits.
- () 18. A schedule detailing all staff whose position requires a school administrative, principal or school business administrator certificate pursuant to *N.J.A.C.* 6A:9-12.3. Such positions should include superintendent, assistant superintendent, school business administrator, director, principal, assistant/vice principal, etc. The format should include the title, salary, and general ledger account code(s), with an explanation provided for any deviation from administration, including any allocation methodology used.
- () 19. An analysis of any balance in the net payroll or payroll agency account.
- () 20. Monthly and quarterly remittance returns for all payroll agencies. Payroll tax reports, quarterly and calendar year end, including W-2s, for federal and state.
- () 20a. Forms 1099 and transmittal form.
- () 20b. NJ Form E-Cert1, Certification of Compliance with Federal and State Law Respecting the Reporting of compensation of Certain Employees.
- () 21. All paid and voided warrants and payroll checks, together with the bank statements on which they are listed, arranged in order by month. Certified and approved payroll registers in chronological order.
- () 22. The Treasurer of School Moneys should have his or her records in order and available during the course of audit.
- () 23. All contracts, including transportation agreement, leases and conveyances. Include all salary, transportation and other written contracts.

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- () 24. Records, bills, orders and other supporting documentation of Athletic Association.
- () 25. The October 15, 2009 supporting workpapers, documentation of internal procedures, school registers, applications for free and reduced meals and student's individualized education program (IEP).
- () 26. Schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis.
- () 27. Analysis for each balance sheet account balance as of fiscal year-end (see Section I, Chapter 8, page I-8.2) including a schedule of June 30 encumbrances that supports the Reserve for Encumbrance account balance.
- () 28. Analysis of the miscellaneous income account including a schedule of receivables for miscellaneous income.
- () 29. Latest SFRA-state aid printout (NET) and payment schedule reflecting the state aid for 2009-10, ARRA-ESF & ARRA-GSF amounts (P-1), aid withholding (column P-2) and any Appeals/adjustments (column P-3).
- () 30. E-rate-funding requests and claims for reimbursement for each of the following eligible service categories: telecommunications services, internet access and internet connections. Universal Service Fund Form 470 (E-rate), Description of Service Notification, and funding commitment letter, if applicable.
- () 31. Summary Schedule of Prior Audit Findings prepared in accordance with USOMB Circular A-133 section .315, if applicable.
 - a. Corrective Action Plan which was submitted to the executive county superintendent.
 - b. Copy of charter school certification to the executive county superintendent that all corrective actions of prior year has been taken.
- () 32. Copy of any audit or compliance report received from oversight or regulatory agencies during the current year and copies of any dispute resolutions related to prior year issues.
- () 33. Special Education Medicaid Initiative (SEMI) – refer to SEMI Provider Handbook and other correspondence from the NJ Department of the Treasury
 - a. Parental consent forms.
 - b. Documentation to verify that a service was provided on a specific date.
 - c. Records to indicate that a pupil either has a current IEP that specifies the services or was referred for evaluation.
 - d. Records which specify the practitioner providing the related service. The record should be adequate to verify that the service was provided to the pupil by a specific practitioner on a specific date.
- () 34. Documentation to support all out of state travel expenditures should be available

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- () 35. Copies of all FY 10 charter school aid payment schedules (Oct. 15, 2009; Last day of School, 2010).
- () 36. Copy of charter school certification to the executive county superintendent that all corrective actions of prior year has been taken
- () 37. A schedule of all cash or in-kind contributions and donations, including donor, amount and disclosure of related parties, if applicable
- () 38. A schedule of all loans, including amount, terms and disclosure of related parties, if applicable

Items required for Charter School-wide financial statement:

- () 1. Capital asset schedules, including the following detail:
 - a. Date placed in service.
 - b. Cost/basis.
 - c. Beginning of the year balance – accumulated depreciation.
 - d. Current year depreciation
 - e. Ending balance – accumulated depreciation.
 - f. Classification of the asset (e.g. land, building, equipment).
 - g. Method of depreciation (e.g. straight line).
 - h. Useful life of each asset used in computing the depreciation. Charter Schools may refer to the standard useful life table on the following page for guidance on useful life of each asset. Charter Schools are not required to utilize the standard useful lives suggested but should develop a policy appropriate for the charter school use.
“This chart originally appeared in the book GASB Statement No. 34 Implementation Recommendations for Charter Schools and is reprinted with permission of the Association of School Business Officials International at <http://www.asbointl.org>.
 - i. Identification by program.
 If the asset is specifically identifiable to a program (see the lines used in the Statement of activities), then that program should be noted and depreciation should be charged to that program. If not, there should be an indication that it is not specifically identifiable. The assets should be in one of two categories based on how each asset is used – 1) governmental fund or 2) business-like activity (enterprise fund).
- () 2. Schedule of long-term liabilities for the following each category of debt – capital leases, compensated absences, other – (specify):
 - a. Beginning of year balance
 - b. Additions
 - c. Reductions
 - d. End of year balance
 - e. Amount due within one year

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- () 3. Schedule of interest accrued on long-term debt.
- () 4. Trust documents (trust instruments or letter specifying restrictions) which support classification as either a permanent trust or private purpose trusts (e.g. scholarships).
- () 5. Worksheet for converting from governmental fund balances to net assets.

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The following table relates to item 1(h) under “Items required for GASB 34 financial reporting”.

Table 4.1

Asset Class	Examples	Est. Useful Life in Years
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalk, fencing, outdoor lighting	20
School Buildings		50
Portable Classrooms		25
HVAC Systems	Heating, ventilation and air-conditioning system	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical/Plumbing		30
Sprinkler/Fire System	Fire suppression systems	25
Outdoor Equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & Tools	Shop & maintenance equipment, tools	15
Kitchen Equipment	Appliances	15
Custodial Equipment	Floor scrubbers, vacuums, etc.	15
Science & Engineering	Lab equipment, scientific apparatus	10
Furniture and Accessories	Classroom and office furniture	20
Business Machines	Fax, duplicating & printing equipment	10
Copiers		5
Communications Equipments	Mobile, portable radios, non-computerized	10
Computer Hardware	PC's, printers, network hardware	5
Computer Software	Instructional, other short-term	5 to 10
Computer Software	Administrative or long-term	10 to 20
Audio Visual Equipment	Projectors, cameras (still & digital)	10
Athletics Equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical Instruments	Pianos, string bass percussion	10
Library Books	Collections	5 to 7
Licensed Vehicles	Buses, other on-road vehicles	8
Contractors Equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds Equipment	Mowers, tractors, attachments	15

"This chart originally appeared in the book GASB Statement No. 34 Implementation Recommendations for School Districts and is reprinted with permission of the Association of School Business Officials International: www.asbointl.org."

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**CHECKLIST FOR ANNUAL AUDIT
STUDENT ACTIVITY FUND**

(NAME OF SCHOOL)

SCHOOL YEAR 2009-2010

- () 1. Monthly bank reconciliations of all checking accounts:
 - a. Bank statements for 13 months, including related canceled checks returned by the bank and duplicate deposit slips for the period July 1, 2009 through July 31, 2010.
- () 2. Cash Receipts and Cash Disbursements Journal.
- () 3. General Ledger of School Accounts.
- () 4. Paid and unpaid Invoices and Payment Forms covering School Year.
- () 5. Savings Account Pass Books or Certificates, including interest credited to June 30.
- () 6. Petty Cash Fund (including unreimbursed invoices) and School Change Fund, if applicable.
- () 7. Prenumbered receipts for the period July 1, 2009 through July 31, 2010.
- () 8. Copy of Annual Cumulative Report of Cash Receipts, Cash Disbursements and Balances at fiscal year-end, including completion of bank reconciliation at June 30, 2010.
- () 9. Records, bills, orders and other supporting documentation of the Student Activity Accounts.
- () 10. All entries in the Student Activity Account records must be up-to-date and records must be balanced.
- () 11. Copies of board resolutions approving each fund.
- () 12. Schedule of accounts receivable and accounts payable.

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**CHECKLIST FOR ANNUAL AUDIT
FOOD SERVICE FUND**

(NAME OF SCHOOL)

SCHOOL YEAR 2009-2010

- () 1. Monthly bank reconciliations of all checking accounts.
 - a. Bank statements for 13 months, including related canceled checks, returned by the bank and duplicate deposit slips for the period July 1, 2009 through July 31, 2010.
- () 2. Cash Receipts and Cash Disbursements Journal.
- () 3. General Ledger.
- () 4. Paid invoices and unpaid invoices applicable to the school year.
- () 5. Savings Account Pass Books or Certificates, including interest credited to fiscal year-end.
- () 6. Petty Cash Fund (including unreimbursed invoices) and School Change Fund, if applicable.
- () 7. Prenumbered receipts or billings for the period July 1, 2009 through July 31, 2010 for special affairs.
- () 8. Daily cash register tapes, properly identified, and daily cashier reports, indicating reconciliation to deposit.
- () 9. Reimbursement claims filed and schedule of claims receivable as of June 30.
- () 10. Copies of advertisements for bids, and copies of such bids awarded.
- () 11. Schedule of any receivables or payables as of June 30.
- () 12. Schedule of closing inventory of food and supplies.
- () 13. Copy of annual food service manager's report of operation for the school year.
- () 14. Agreement for School Nutrition Programs dated, signed by authorized representative and approved by New Jersey State Department of Education/Agriculture Officials (must complete certification on web-based system – SNEARS).
- () 15. Eligibility documents for free and reduced price meals.
- () 16. Meal count records, Edit Check Worksheets and/or daily summary sheets of number and type of meals served.

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- () 17. Monthly Report (Summary of Meals Claimed) and Payment log for period of audit (in SNEARS).
- () 18. Verification summary (in SNEARS).
- () 19. Food Service Management Company contract (if applicable).
- () 20. Paid invoices to Food Service Management Company with fully itemized and verified bills (if applicable).
- () 21. Records, bills, orders and supporting documentation of the Food Service Fund.
- () 22. All entries in the Food Service Fund records must be up-to-date and records must be balanced.
- () 23. Food Service Management Company SAS #70/#88 report (if applicable).
- () 24. FSMC records identifying amounts of discounts, rebates and other applicable credits.
- () 25. FSMC accounting of donated commodities used during the year.
- () 26. Child Nutrition Program Agreement Addendum to participate in the Fresh Fruit and Vegetable Program, if applicable.
- () 27. Grant award agreement for Food Service Equipment Grant, if applicable.

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NEW JERSEY DEPARTMENT OF EDUCATION
DIVISION OF FINANCE

A U D I T Q U E S T I O N N A I R E 2009-2010
(To Be Completed by the Public School Auditor)

CHARTER SCHOOL _____ **COUNTY** _____

The Audit questionnaire is a checklist of items specific to New Jersey charter schools which auditors should include as part of the audit workpapers to support the auditor’s opinion on the charter school’s compliance with laws and regulations. This checklist should be signed by the auditor and kept with the auditor’s workpapers and available to the department upon request.

Irregularities shown by answers given to questions must be covered by a comment and recommendation in the Auditor’s Management Report.

1. Was the charter school able to demonstrate an accounting system that was maintained in accordance with Governmental GAAP and the State prescribed publication entitled GAAP for New Jersey School Districts, A Technical Systems Manual?

Yes _____ No _____

2. Were copies of the following reports completed and available for examination?

Yes No N/A

Treasurer's Monthly Financial Statements.
 (N.J.S.A. 18A:17-36) (Form A-149)

Secretary's Monthly Financial Report filed on a monthly basis. (N.J.S.A. 18A:17-9a) (Form A-148)

Was the year-end report (June 30, 2010 A-148) prepared by the secretary, passed by board resolution and reflected in the minutes of the Board of Education at the July meeting?

T.P.A.F. Reimbursement for June 30 – **should be submitted to NJDOE by September 30.** (N.J.S.A.18A:66-90)

Vocational Education

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3. Were the following Cash Reconciliations prepared monthly? If no, explain.

	<u>Monthly</u>		
	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General Operating Fund	_____	_____	_____
Capital Projects Fund	_____	_____	_____
Food Service Fund	_____	_____	_____
Net Salary Account	_____	_____	_____
Payroll Agency Account	_____	_____	_____
Permanent Account	_____	_____	_____
Trust Fund	_____	_____	_____
Athletic Fund	_____	_____	_____
Student Activity Accounts	_____	_____	_____
Other _____	_____	_____	_____
_____	_____	_____	_____

4. (A) Was the following information verified utilizing the bookkeeping records, maintained in accordance with Governmental GAAP?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Rental Billings	_____	_____	_____
Rental Revenue Accounts Receivable	_____	_____	_____
Cash and In-kind Contribution revenue	_____	_____	_____
Miscellaneous Revenue	_____	_____	_____
Miscellaneous Revenue Accounts Receivable	_____	_____	_____
Accounts Payable (including liabilities due to grantor agencies)	_____	_____	_____

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Outstanding Purchase Orders	_____	_____	_____
Analysis of Net Payroll Account Balances	_____	_____	_____
Analysis of Payroll Agency Account Balances	_____	_____	_____

(B) Were the Board Secretary/Business Administrator Administrative Classifications Questionnaire and audit checklists (Operating Fund, Student Activity Fund, and Food Service Fund) completed by the Board Secretary/Business Administrator and were the records ready for audit?
 Yes _____ No _____

5. Were the following revenue verification notices on hand for examination?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Charter School Aid Payment Schedules	_____	_____	_____
Other: _____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

6. (A) Were the board minutes properly signed? Yes _____ No _____

(B) Are pre-numbered pages and/or marginal notes used in the maintenance of the minutes? Yes _____ No _____

(C) In connection with Board action were the following subject matters recorded in the minutes?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Full spread of the adopted detailed budget <i>N.J.S.A. 18A:22-8</i>	_____	_____	_____
Full detail of Budget Transfers <i>N.J.S.A. 18A:22-8.1</i>	_____	_____	_____
Organization Meeting <i>N.J.S.A. 18A:10-5</i>	_____	_____	_____
Establishment of Petty Cash Fund <i>N.J.S.A. 18A:19-13, N.J.A.C. 6:23-2A.9</i>	_____	_____	_____
Official Depositories <i>N.J.S.A. 18A:17-34</i>	_____	_____	_____

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Official Newspaper Designated <i>N.J.S.A. 18A:18A-21</i>	_____	_____	_____
Bill or Voucher List <i>N.J.S.A. 18A:19-4</i>	_____	_____	_____
Change Orders on Awarded Contracts <i>N.J.A.C. 6A:23-7.1</i>	_____	_____	_____
Authorizations for Advertisement of Bids <i>N.J.S.A. 18A:18A-21</i>	_____	_____	_____
Summary of Bids Received <i>N.J.S.A. 18A:18A-21</i>	_____	_____	_____
Award of Contracts Bid <i>N.J.S.A. 18A:18A-36, 37 and N.J.S.A. 18A:18A-3.4</i>	_____	_____	_____
Designation of EUS <i>N.J.S.A. 18A:18A-5 and N.J.S.A. 18A:18A-37</i>	_____	_____	_____
Designation of Qualified Purchasing Agent <i>N.J.S.A. 18A:18A-3</i>	_____	_____	_____
Authorization of Competitive Contracting Process <i>N.J.S.A. 18A:18A-4.1, 4.3, 4.4, and 4.5</i>	_____	_____	_____
Payment of Emergency Contracts <i>N.J.S.A. 18A:18A-7</i>	_____	_____	_____
Capital Improvement Authorizations, Proposals and/or Adoptions <i>N.J.S.A. 18A:22-18 and N.J.S.A. 18A:22-39</i>	_____	_____	_____
Monthly Financial Report of the Treasurer of School Moneys (Form A-149) <i>N.J.S.A. 18A:17-36</i>	_____	_____	_____
Monthly Financial Report of the Secretary (Form A-148) <i>N.J.S.A. 18A:17-9</i>	_____	_____	_____
Investments-Authorization, Purchase and Recording <i>N.J.S.A. 18A:20-37 and N.J.S.A. 18A:20-38</i>	_____	_____	_____
Reading and discussion of recommendations of the Annual Report of Audit <i>N.J.S.A. 18A:23-5</i>	_____	_____	_____
Applicable Resolutions of Cancellations <i>N.J.S.A. 18A:7G-31</i>	_____	_____	_____
Establishment of Emergency Reserve Fund <i>N.J.S.A. 17A:7F-41(c)1</i>	_____	_____	_____
Board acknowledgement of audit firm peer review report <i>N.J.A.C. 6A:23A-16.2(i)2</i>	_____	_____	_____

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Required Board of Trustees Policies

Travel and Expense Reimbursement Policy <i>N.J.S.A.</i> 18A:11-12, <i>N.J.A.C.</i> 6A:23A-6.13, 7.2	_____	_____	_____
Public Relations and Professional Services Policy <i>N.J.A.C.</i> 6A:23A-22.6	_____	_____	_____
Nepotism Policy <i>N.J.A.C.</i> 6A:23A-22.10	_____	_____	_____
Contributions & Contract Awards Policy <i>N.J.A.C.</i> 6A:23A-2.11	_____	_____	_____
Policy on Exceeding Purchase Order Amounts <i>N.J.A.C.</i> 6A:23A-22.15	_____	_____	_____

7. (A) Are records maintained in conformance with requirements prescribed by the state board of education per *N.J.A.C.* 6A:23A-16.1? Yes _____ No _____
- (B) If an electronic data processing bookkeeping service company or educational management company is used, is an audit of the internal controls of the service company on file per *N.J.A.C.* 6A:23A-16.6? Yes _____ No _____
8. (A) Condition of Records: Comment on needed improvements in Auditor’s Management Report.

	<u>Satisfactory</u>	<u>Unsatisfactory</u>
Treasurer – General	_____	_____
Secretary – General	_____	_____
Capital Projects	_____	_____
Food Service	_____	_____
Payroll	_____	_____
Permanent Fund	_____	_____
Trust Fund	_____	_____
Athletic Funds	_____	_____
Student Activity Funds	_____	_____
Enrollment Submissions	_____	_____
Written Policies/Procedures for conducting the enrollment counts	_____	_____

SECTION III – REPORTING
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Other:

(B) Are the Treasurer's records maintained independently of the Board Secretary's?

Yes _____ No _____

(C) Were records of the Treasurer and Board Secretary reconciled on a monthly basis?

Yes _____ No _____

(D) In your opinion, are the books and records of any official in such unsatisfactory condition that comment and recommendation is made in the Auditor's Management Report?

_____ Yes _____ No _____

If answer is "yes", specify the officials referred to

9. (A) Were all payrolls approved by the charter school board of trustees and certified by the Secretary and President of the Board prior to issuance of salary checks? Yes _____ No _____

(B) Were bank deposits to Payroll Salary and Agency accounts detailed as to sources of Appropriations, Special Funds, Refund or Other Sources? Yes _____ No _____

(C) Where outside services (computer services, educational management, etc.) are utilized, are the records adequate and do they leave an "audit trail?" Yes _____ No _____

(D) Were payroll tax filings properly prepared, including fringe benefits where applicable?

Yes _____ No _____

10. (A) Is there a requisition system operative in the charter school? Yes _____ No _____

(B) Is there a sequential purchase order system operative in the charter school?
Yes _____ No _____

(C) Are purchase orders numerically recorded in a central register? Yes _____ No _____

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(D) Is an encumbrance system utilized in accordance with Governmental GAAP?

Yes _____ No _____

11. (A) Are credit cards utilized by board members and employees?

Yes _____ No _____

If answer is “Yes”, a comment and recommendation is required.

12. Were the monthly certifications of line-item appropriations and fund status filed in accordance with *N.J.A.C. 6A:23A-16.10(c)* and Division of Finance Policy Bulletin 200-11?

Yes _____ No _____

(If no, appropriate comments and recommendations must be included in the annual audit report)

13. Has the Board’s Records Custodian adopted and made available to the public a Records Request Form (*N.J.S.A. 47:1A-5(f)*) (OPRA)?

Yes _____ No _____

14. Has the statement of rights of appeal been posted pursuant to *N.J.S.A. 47:1A-5(j)* (OPRA)?

Yes _____ No _____

15. Expenditure Classification Test Results Summary

Dollar Value of Items Tested	\$	
Dollar Value of Errors Noted	\$	
Dollar Value Error Rate		
Total Expenditures*	\$	

* General Fund and Special Revenue Fund excluding on-behalf payments for TPAF (pension and FICA).

16. Is the charter school appropriately assisting the State in maximizing federal participation pursuant to section 7 of P.L. 1968, c.413 (C.30:4D-7)(SEMI Medicaid Program)? Consider the following:

a) Has the charter school appointed a SEMI Coordinator or contact person?

_____ Yes _____ No _____

b) Has the charter school applied for participation in the SEMI program with the Department of Education, Medicaid and the Public Consulting Group?

Yes _____ No _____

c) Do the IEPs identify services which are eligible for reimbursement under the SEMI program?

_____ Yes _____ No _____

(c1) Has the charter school included the reimbursement eligible services identified for reimbursement in item c) above in the third party administrator’s proprietary software system for reimbursement?

_____ Yes _____ No _____

d) Does the charter school have a process for identifying new students eligible for the SEMI program?

_____ Yes _____ No _____

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- e) Does the charter school have a process for acquiring parental consent for students eligible for the SEMI program. Yes ____ No ____
- f) Are parental consent forms available in the student file? Yes ____ No ____
- g) Does the charter school have a process for documenting expenditures eligible for reimbursement under the SEMI program (refer to SEMI handbook) ? Yes ____ No ____
- h) Has the charter school been uploading service data in a timely manner? Yes ____ No ____
- i) Are annual reviews held for the students in the SEMI program? Yes ____ No ____
- j) Are IEPs available for claims made under the SEMI program? Yes ____ No ____
17. Were administrative staff whose position requires a school administrative, principal or school business administrator certificate recorded in the administrative functions, and if not was the account coding in compliance with department guidance (NJ Chart of Accounts) and was proper supporting documentation maintained for any allocations? Yes ____ No ____
18. Is the charter school current in submitting all claims for reimbursable costs under the Federal E-rate Program (the Schools and Libraries Universal Support Mechanism) for encouraging the use of the internet? Yes ____ No ____
19. Did the charter school apply for the maximum amount of Federal E-rate program funds in each of the following areas?
- (A) Telecommunications Services Yes ____ No ____
 - (B) Internet Access Yes ____ No ____
 - (C) Internet Connections Yes ____ No ____
20. Did the charter school participate in the following cost savings programs during 2009-2010? (N.J.S.A. 18A:55-2 and N.J.A.C. 6A:23A-6.1(b))
- (A) Alliance for Competitive Energy Services (ACES) Yes ____ No ____
If no, why didn't the charter school participate?

- (B) Alliance for Competitive Telecommunications (ACT) Yes ____ No ____
If no, why didn't the charter school participate?

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(C) New Jersey School Boards Association Insurance Group or a joint insurance fund
Yes _____ No _____

If no, why didn't the charter school participate?

(D) New Jersey State Health Benefits Plan
If no, why didn't the charter school participate? Yes _____ No _____

18. Are instructional expenses at least 60% of general fund expenses?
N.J.A.C. 6A:11-7.3(e)? Yes _____ No _____

If answer is "No", a comment and recommendation is required.

19. Are all revenue data and expenditures data items in the board-approved budget correctly classified as explained in a narrative description with the budget summary in the charter school application? _____ Yes _____ No _____

20. Does the charter school have a fully functioning board of trustees, including a President and Treasurer/Custodian of School Funds? Yes _____ No _____

21. Is the school utilizing the services of a Certified School Business Administrator who is performing all duties and responsibilities of this title? Yes _____ No _____

22. Did you verify that no voting member of the board of trustees is a paid vendor or employee of the charter school? Yes _____ No _____

23. Does the board on a monthly basis approve all expenditures? Yes _____ No _____

24. Do the President and Board Secretary /School Business Administrator sign all checks? Yes _____ No _____

If you answered "No" to any of the above, does the auditor's management report, include comments and corresponding recommendations? Yes _____ No _____

26. Did the charter school file its annual report required by *N.J.S.A.18A:17-10*? Yes _____ No _____

June 30, 2010

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THIS QUESTIONNAIRE MUST BE SEPARATELY FILED WITH THE OFFICE OF SCHOOL FUNDING WITH EACH REPORT OF AUDIT FOR THE FISCAL YEAR 2009-2010. IT IS NOT TO BE BOUND IN THE REPORT.

SIGNATURE OF PUBLIC ACCOUNTANT

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

Synopsis and Hearing of Audit

N.J.S.A. 18A: 23-3 states in part that "The Commissioner annually shall publish a summary of such recommendations as made for each charter school and the steps which have been taken in each charter school for their implementation."

N.J.S.A. 18A:23-4 states “ The secretary of the board shall prepare or have prepared a synopsis or summary of the annual audit and recommendations, prior to the holding of the meeting of the board to take action thereon; A copy of which synopsis or summary shall be available for distribution to interested parties at the meeting.

In order to comply with the above requirements, it is requested that the Secretary of the Board prepare the audit synopsis under the following format:

- a. Governmental Funds Balance Sheet (Exhibit B-1).
- b. Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit B-2).
- c. Reflect each audit recommendation under the applicable heading listed below. Include the subheadings listed on page III-4.5:
 1. Administrative Practices & Procedures
 2. Financial Planning, Accounting & Reporting
 3. School Purchasing Programs
 4. School Food Service
 5. Student Body Activities
 6. Facilities and capital assets
 7. Miscellaneous
 8. Follow-up on prior year findings
- d. A copy of the minutes of the board meeting at which the audit recommendations were read and discussed must be filed with the county superintendent of schools together with the synopsis within 30 days following the meeting at which the audit was discussed. **Specific board action and disposition of each audit recommendation must be duly noted in the minutes of the board. A general statement of the Board’s acceptance of the audit and recommendations is NOT in compliance. In addition, the minutes must address the corrective actions voted by the board and a completed Corrective Action Plan signed by the chief school administrator/lead person and the board secretary/school business administrator must be included with the synopsis.**

The copy of the minutes, synopsis and corrective action plan are submitted to the Executive County Superintendent and will be filed with the State Department of Education by the executive county superintendent after they have been reviewed for accuracy and completeness. A copy of the Corrective Action Plan should also be submitted to the Office of School Funding, Division of Finance, PO Box 500, Trenton, NJ 08625, Attn: Kathy Ambrosio. (see link for Corrective Action Plan on the next page).

The school business administrator must submit a certification (see sample format at end of this chapter) when all corrective actions have been fully implemented, but no later than June 30th of the subsequent fiscal year. The certification letter is to be submitted to the Office of School Funding, Division of Finance, PO Box 500, Trenton, NJ 08625-0500 , Attn: Kathy Ambrosio and to the Executive County Superintendent of Schools.

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

CORRECTIVE ACTION PLAN 2009-10

The Corrective Action Plan form can be accessed through the following link:

[Corrective Action Plan.xls](#)

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

[SAMPLE] CERTIFICATION OF IMPLEMENTATION OF CORRECTIVE ACTION PLAN

For the Fiscal Year ended June 30, 2010

Name of Charter School _____ County _____

I hereby certify that all corrective actions listed on the charter’s Corrective Action Plan (CAP) for the fiscal year indicated above have been fully implemented with the following exceptions:

CAP
Recommendation
Number

	[Comments]
	[Comments]

Board Secretary/Business Administrator	Date
--	------

Chief School Administrator/Lead Person	Date
--	------

Submit by June 30, 2011 to:

NJ Department of Education
Single/Grants Audit Unit
Office of Compliance Investigation
P.O. Box 500
Trenton, NJ 08625-0500

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

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SECTION III – REPORTING
CHAPTER 8 – QUALITY ASSESSMENT REVIEW CHECKLIST

A Quality Assessment (Control) Review will be performed at the state level on each audit. The auditor should familiarize himself/herself with the following Quality Assessment (Control) Review form. The auditor’s review of this form should ensure that the audit contains sufficient information to answer the questions contained in the review, as well as eliminate time-consuming correspondence with Office of School Funding personnel in assuring compliance with Federal and State audit requirements.

CHARTER SCHOOL QUALITY ASSESSMENT REVIEW

Charter School _____

District of Residence/County _____

Audit Period _____ Date of Report _____

Date Report Received _____

Auditor Name _____ Audit Firm _____

Reviewed By _____ Date _____

Summary of Quality Assessment Review

In my opinion, the CAFR is:

- Acceptable, and requires no or only minor corrections.
- Substandard, and requires one or more major changes.

Comments: _____

I. Qualifications of Auditor

- 1. Is the audit performed by a registered municipal accountant or certified public accountant? (If answer is “Yes”, mark #2 “No”.) Yes _____ No _____
- 2. Is the audit performed by a public school accountant? (If the answer is "Yes", contact the State Board of Accountancy at 1-973-504-6380 to ascertain if licensed as both a public accountant and a public school accountant.) Yes _____ No _____

- 3. Is the audit report free of indications that the auditor is not independent? If not, follow up to determine if independence was impaired in appearance or in fact. Yes _____ No _____
- 4. Does the auditor have an external quality control review on file with the department? Yes _____ No _____

II. Financial Statements

The format of the CAFR should conform to the publication, Financial Accounting for New Jersey Charter Schools – The Audit Program and should strictly adhere to the prescribed sectioning of the report and numbering of exhibits as shown on **Intro 3 - 5** of The Audit Program. If a section or exhibit is not applicable to the charter school, the notation “N/A” should be indicated against that item in the Table of Contents. Exhibit numbers for any additional statements required under the circumstances should be assigned using the next available exhibit number within that series of statements/schedules.

- 1. Is a complete table of contents as reflected in The Audit Program included?
If “No”, describe deficiencies:

- 2. Are sections properly designated?
(If “No”, make corrections in the CAFR and describe below.)

- 3. Are exhibits properly numbered?
(If “No”, make corrections in the CAFR and describe below.)

- 4. Are all statements and schedules reflected in The Audit Program Outline for the CAFR (p Intro -3 - 5) or below, either included in the CAFR or designated “N/A” in the table of contents?
Yes _____ No _____

If answer is “No”, list all omitted financial statements not designated as “N/A” in the table of contents. If additional space is needed, attach additional sheets.

5. Does the audit package submitted to the Department of Education include: Yes___ No___
 a. The CAFR ?
 b. The Auditor’s Management Report on Administrative Findings, Financial, Compliance and Performance?
 c. Audit Summary Worksheet Diskette ?
6. Does the format for the revenue/expenditure financial statements follow the 108 line item budget summary form prescribed by the Department of Education in the New Jersey Charter School Application? Yes___ No___
7. Are restricted revenue accounts properly accounted for in accordance with GAAP? Yes___ No___
8. Do the fund types used in the financial statements conform to those described in GASB §1300.103? Yes___ No___
9. Are the food services program and the before/ after school programs recorded in an enterprise fund or an internal service fund? Yes___ No___
10. Does the information presented in the combining statements in Other Supplementary Information agree to the applicable funds statements or budget to GAAP reconciliation? Yes___ No___
- 11a. Does the statement of net assets include a balance for capital assets, net of accumulated depreciation and an amount for Net Assets, Invested in capital assets, net of related debt? Yes___ No___
- 11b. Does the statement of net assets include two lines for Noncurrent liabilities – Due within one year and Due in more than one year? Yes___ No___
12. Have the basic financial statements, required supplementary information and other supplementary information been prepared in the format of the CAFR Outline? Yes___ No___
- If the charter school reported ARRA programs in the Special Revenue Fund Combining Schedule of Program Revenues and Expenditures (Exhibit E-1), is there a separate line for each ARRA program in the Schedule of Expenditures of Federal Awards, and is the proper ARRA prefix used? Yes___ No___

13. Does the CAFR reflect the proper presentation of fund balance as reserved, designated and unreserved in the funds statements? Has GASB Statement No. 54 been implemented Yearly for fiscal year ended June 30, 2010*(Implementation of GASB 54 is not required until fiscal year beginning July 1, 2010). If the charter school elected to early implement GASB 54 for June 30, 2010, does the CAFR reflect fund balance as nonspendable, restricted, committed, assigned, and unassigned? Yes ___ No ___
- (a) Are designated -reserved fund balances to be used for capital outlay only? Yes ___ No ___
- (b) Have the appropriate disclosures related to the components of fund balance been made in the notes to the financial statements? Yes ___ No ___
14. Are any of the fund balances reflected in the CAFR in a deficit position? Yes ___ No ___
If yes, is a finding and recommendation regarding the deficit included in the Auditor's Management Report? Yes ___ No ___
15. Are all interfund transfers reflected in the CAFR in accordance with statute and properly reported in accordance with GASB §1800.102-105? Yes ___ No ___ N/A ___
16. Do the Budgetary Comparison Schedules reflect overexpenditures of line accounts in violation of *N.J.A.C. 6A:23A-16.10*? Yes ___ No ___
Is a comment and recommendation regarding overexpenditures included in the Auditor's Management Report? If not, a note to the auditor must be included in the QAR letter. Yes ___ No ___
- 16a. Is a comment and recommendation regarding overexpenditures included in the Auditors' Management Report? If not, a note to the auditor must be included in the QAR letter. Yes ___ No ___ N/A ___
17. If the charter school is self-insured for workmen's compensation, have they properly accounted for the activity in accordance with GASB 10 and 30? (Self-insured worker's compensation plans should be accounted for in either the general fund or an internal service fund when there is no transfer of risk). Yes ___ No ___
18. If the charter school uses the reimbursement method (payment in lieu of contributions) for unemployment compensation, has the information been presented in the fiduciary fund statements? Yes ___ No ___ N/A ___

19. Does the *Statement of Net Assets* report Net Assets in three components – Invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions, including permanent endowment principal – nonexpendable GASB No. 54); and unrestricted (GASB 34, ¶477)? If no, answer (a) below.
- Yes___ No___ N/A___
- (a) Does the independent auditor’s report contain the associated qualification of opinion?
- Yes___ No___ N/A___
20. Does the Statement of Net Assets report the portion of compensated absences which matures within one year separately from the long-term portion? (GASB § 2200-116)
- Yes___ No___ N/A___
21. Are contributions and exchange transactions recorded and correctly classified on the financial statements?
- Yes___ No___
- (a) Does the independent auditor’s report contain the associated qualification of opinion?
- Yes___ No___
22. Do the notes to the financial statements include: (GASB §2300)
- Yes___ No___
- (a) A summary of significant accounting policies that includes:
- i. An identification of the component units combined to form the reporting entity and the key criteria considered? (GASB §2600.119)
- Yes___ No___
- ii. The basis of accounting including revenue recognition policies?
- Yes___ No___
- iii. The method of encumbrance accounting and reporting?
- Yes___ No___
- (b) Interfund receivables and payables?
- Yes___ No___ N/A___
- (c) Excess of expenditures over appropriations in individual funds?
- Yes___ No___ N/A___
- (d) Deficit fund balances or retained earnings of individual funds?
- Yes___ No___ N/A___
- (e) Material violations of finance-related legal and contractual provisions?(GASB §1200.112)
- Yes___ No___ N/A___
- (f) Do the notes to the financial statements for capital assets and noncurrent liabilities agree to the Statement of Net Assets (GASB ¶2300.111)
- Yes___ No___ N/A___

III. Reporting

23. Does the Independent Auditor’s Report contain the following items:
- (a) A title that includes the word independent?
- Yes___ No___

- (b) A statement that the financial statements of the governmental activities, the business-type activities, and each major fund, which collectively comprise the charter school's basic financial statements as listed in the table of contents were audited? Yes ___ No ___
- (c) A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his audit? Yes ___ No ___
- (d) A statement that the audit was conducted in accordance with generally accepted auditing standards (GAGAS), *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Finance, Department of Education, State of New Jersey? Yes ___ No ___
- (e) A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement? Yes ___ No ___
- (f) A statement that the audit includes:
 - i. Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements? Yes ___ No ___
 - ii. Assessing the accounting principles used and significant estimates made by management? Yes ___ No ___
 - iii. Evaluating the overall financial statement presentations? Yes ___ No ___
- (g) A statement that the auditor believes that his audit provides a reasonable basis for his opinion? Yes ___ No ___
- (h) An opinion as to whether the financial statements present fairly, in all material respects the respective financial position of the governmental activities, the business-type activities, and each major fund as of the balance sheet date and the respective changes in financial position and cash flows, where applicable, for the period then ended in conformity with accepted accounting principles generally accepted in the United States of America? Briefly describe any qualifications:

- (i) A statement that in accordance with *Government Auditing Standards*, the auditor has also issued a report dated (include report date) on the consideration of the charter school's internal control over financial reporting and on tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. A statement that the purpose of that report is to describe the scope of the testing of internal control, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. Yes___ No___
- (j) Identification of the accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison schedules accompanying the financial statements and that limited procedures were applied? Yes___ No___ N/A___
- (k) Identification of additional information accompanying the financial statements (relevant combining schedules) that have been subjected to the auditing procedures applied in the audit of the basic financial statements? Yes___ No___ N/A___
- (l) Identification of additional supplementary information (such as the introductory section and statistical tables) that has not been subjected to the auditing procedures? Yes___ No___ N/A___
- (m) An opinion as to whether the schedule of expenditures of federal awards and/or schedule of expenditures of state financial assistance is(are) fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole or a disclaimer of opinion?
Briefly describe any qualifications:

- (n) An opinion as to whether the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion?
Briefly describe any qualifications:

- (o) Identification that the introductory section and statistical tables was not audited? Yes___ No___

- (p) The signature of the public accountant who performed the audit? Yes___ No___
 (The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, who employs the auditor.)
- (q) The date of the audit report? Yes___ No___
24. (a) Have the schedules of expenditures of federal awards and expenditures of state financial assistance been prepared as prescribed by The Audit Program in Section II-SA ? Yes___ No___ N/A___
- If "No", describe deficiencies:

- (b) Do the funds received per the schedules agree with department/state disbursement records? Yes___ No___ N/A___
- (c) Based on federal and state financial assistance expenditures, was the proper type of audit report prepared? Yes___ No___ N/A___
 Total Federal Expenditures _____
 Total State Expenditures _____
25. Do the Notes to the Schedules of Awards and Financial Assistance include the following:
- (a) Basis of accounting of the data? Yes___ No___ N/A___
- (b) Disclosure of the nature of differences between amounts presented in the schedules and amounts reported in related reports? Yes___ No___ N/A___
- (c) Relationship of the data presented to the financial statements? Yes___ No___
- (d) Assumptions used to value noncash programs and means of calculations? Yes___ No___ N/A___
- (e) Unique matters necessary to understand the amounts presented for any individual program? Yes___ No___ N/A___
- (f) Other matters considered necessary to ensure the schedule is not misleading? Yes___ No___ N/A___
26. Have the schedule of audited enrollments been prepared as prescribed by The Audit Program? Yes___ No___
27. Are there written procedures on how attendance is taken? Yes___ No___

28. Are there written internal procedures, which provide a description of the count process for the two required enrollment counts? The procedures should describe how the count was taken, who was responsible for compiling the data and completing the enrollment count submission, and the various assigned responsibilities for the collection of the data. Yes____ No____

29. Are the following reports included?
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*? Yes____ No____ N/A____

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133? Yes____ No____ N/A____

30. Does the Report on Internal Control over Financial Reporting and Compliance and Other Matters contain the following elements?

(a) A statement that the auditor has audited the financial statements and a reference to the auditor's report on the basic financial statements? Yes____ No____

- (b) A statement that the audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Finance, Department of Education, State of New Jersey? Yes _____ No _____
- (c) A statement that, in planning and performing the audit, the auditor considered the internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, no opinion on the effectiveness of the charter's internal control over financial reporting is expressed? Yes _____ No _____
- (d) If no material weaknesses, significant deficiencies or reportable instances of noncompliance or other matters identified have been identified, does the report include the definitions of:
- i. a deficiency in internal control (SAS 115)? Yes _____ No _____
 - ii. a material weakness (SAS 115)? Yes _____ No _____
- (e) If no material weaknesses have been identified; however, significant deficiencies and reportable instances of noncompliance, and other matters have been identified:
Does the report include definitions of:
- i. a deficiency in internal control (SAS 115)? Yes _____ No _____
 - ii. a material weakness (revised by SAS 115)? Yes _____ No _____
 - iii. a significant deficiency (revised by SAS 115)? Yes _____ No _____
- (f) If material weaknesses have been identified;
Does the report include definitions of:
- i. a deficiency in internal control (SAS 115)? Yes _____ No _____
 - ii. a material weakness (revised by SAS 115)? Yes _____ No _____
 - iii. a significant deficiency (revised by SAS 115)? Yes _____ No _____
- (g) A statement that the auditor's consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses? Yes _____ No _____
- (h) Was a deficiency considered to be a material weakness or a significant deficiency noted? (if "Yes" answer (i.)-(ii.), if "No" skip to 22.(i))
- i. A statement that noted material weakness and/or significant deficiencies are described in the accompanying schedule of findings and questioned costs and the related finding reference number? Yes _____ No _____
 - ii. A statement about whether the auditor believes any of the significant deficiencies described in the report are material weaknesses and, if so:
Identifies which one(s)? Yes _____ No _____
Yes _____

- (i) If no deficiencies were noted: Yes _____ No _____
 A statement that no matters that the auditor considered to be a material weakness were noted?
- (j) A statement that, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, the auditor performed tests of compliance with certain provisions of laws, regulations, contracts, and grants? Yes _____ No _____
- (k) A statement that the auditor's objective was not to provide an opinion on compliance with those provisions? Yes _____ No _____
- (l) A statement that the results of tests performed disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards and audit requirements prescribed by the Division of Finance, Department of Education, State of New Jersey? Yes _____ No _____
- (m) A statement that the results of tests performed disclosed instances of non-compliance that are required to be reported under *Government Auditing Standards* and audit requirements prescribed by the Division of Finance, Department of Education, State of New Jersey, and reference to the accompanying schedule of findings and questioned costs by finding reference number? Yes _____ No _____
- (n) If applicable, a statement that certain matters were reported to management in a separate letter (the Auditor's Management Report)? Yes _____ No _____
- (o) A statement that the report is intended for the information of the Board, the New Jersey Department of Education, and Federal awarding agencies? Yes _____ No _____
- (p) The signature of the public accountant who performed the audit? Yes _____ No _____
 (The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, which employs the auditor.)
- (q) The date of the auditor's report? Yes _____ No _____

31. Does the **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance** include the following:

- (a) A statement that the entity's compliance with the requirements described in U.S. Office of Management and Budget Circular A-133 Compliance Supplement and the New Jersey *State Grant Compliance Supplement* that are applicable to each of its major programs was audited? Yes ___ No ___
- (b) A statement that compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the entity's management and that the auditor's responsibility is to express an opinion on compliance based on his or her audit? Yes ___ No ___
- (c) A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, audit requirements prescribed by the Division of Finance, Department of Education, State of New Jersey, and New Jersey OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*? Yes ___ No ___
- (d) A statement that generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, OMB Circular A-133 and New Jersey OMB Circular Letter 04-04 require that the auditor plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in item *a*, above, that could have a direct and material effect on a major program occurred? Yes ___ No ___
- (e) A statement that an audit includes examining, on a test basis, evidence about the entity's compliance with the requirements referred to in *a*, above, and performing such other procedures as considered necessary in the circumstances? Yes ___ No ___
- (f) A statement that the auditor believes that his or her audit provides a reasonable basis for an opinion? Yes ___ No ___
- (g) Reference to the accompanying schedule of findings and questioned costs for instances of noncompliance required to be reported in accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04 including related finding reference numbers? Yes ___ No ___ N/A ___

- Where applicable, identification of the type of compliance requirement and the major federal program for which noncompliance was reported? Yes___ No___ N/A___
- (h) An opinion as to whether the entity complied in all material respects, with the requirements referred to in item *a*, above? Yes___ No___
 Briefly describe any qualifications:

- (i) A statement that, in planning and performing the audit, the auditor considered the internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04? Yes___ No___
- (j) A statement that the management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs? Yes___ No___
- (k) If the auditor did not identify any material weaknesses, or significant deficiencies in internal control over compliance; does the report include the definitions of:
 i. deficiency in internal control over compliance (SAS 115)? Yes___ No___
 ii. material weakness in internal control over compliance (SAS 115)? Yes___ No___
- (l) If the auditor identified material weaknesses and/or significant deficiencies in internal control over compliance; does the report include the definitions of:
 i. Deficiency in internal control over compliance (SAS 115)? Yes___ No___
 ii. Material weakness in internal control over compliance (SAS 115)? Yes___ No___
 iii. Significant deficiency in internal control over compliance (SAS 115)? Yes___ No___
- (m) A statement that the auditor's consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be deficiencies, significant deficiencies or material weaknesses? Yes___ No___

- (n) A statement as to whether the auditor identified any deficiencies in internal control over compliance that are considered material weaknesses? (if "Yes" answer (i)), if "No" answer (p) and (q) Yes _____ No _____
- i. Is reference made to the schedule of findings and questioned costs and reference number(s) of related findings? Yes _____ No _____
- (o) A statement as to whether the auditor identified any deficiency in internal control over compliance that the auditor considered to be a significant deficiency? (if "Yes", answer (i.0, if "No" skip to (p)).
- i. A statement that deficiencies in internal control over compliance that are considered significant deficiencies are described in the accompanying schedule of findings and questioned costs and the related finding reference number? Yes _____ No _____
- (p) If no deficiency in internal control over compliance was noted:
- i. A statement that no deficiencies in internal control over compliance that the auditor considered to be a material weakness were noted? Yes _____ No _____
- (q) A statement that the report is intended for the information of the Board, the New Jersey Department of Education, and Federal awarding agencies? Yes _____ No _____
- (r) The signature of the public accountant who performed the audit? Yes _____ No _____
(The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, who employs the auditor.)
- (s) The date of the auditor's report? Yes _____ No _____
32. Does the **Schedule of Findings and Questioned Costs** include the following four components:
- (a) A Summary of the Auditor's Results which includes:
- i. The type of report issued on the financial statements? Yes _____ No _____
- ii. Internal control over financial reporting: Yes _____ No _____ N/A _____
- i. Material weakness(es) identified? Yes _____ No _____
- ii. Significant deficiency(ies) identified? Yes _____ No _____

- iii. A statement as to whether the noncompliance material to the financial statements was disclosed by the audit of the financial statements? Yes ___ No ___
- iv. Internal Control Over Major Programs: Where applicable, a statement as to whether significant deficiencies were identified (reported). Yes ___ No ___
 - For federal awards? Yes ___ No ___ N/A ___
 - For state financial assistance? Yes ___ No ___ N/A ___
- v. The type (unqualified, qualified, adverse, or disclaimer) of report the auditor issued on compliance for major programs:
 - For federal awards? Yes ___ No ___ N/A ___
 - For state financial assistance? Yes ___ No ___ N/A ___
- vi. A statement as to whether the audit disclosed any audit findings which the auditor is required to report:
 - For federal awards? Yes ___ No ___ N/A ___
 - For state financial assistance? Yes ___ No ___ N/A ___
- vii. An identification of major programs:
 - For federal awards (CFDA)? Yes ___ No ___ N/A ___
 - For state financial assistance? Yes ___ No ___ N/A ___
- viii. The dollar threshold used to distinguish between Type A and Type B programs was computed correctly:
 - For federal awards? Yes ___ No ___ N/A ___
 - CPA FIRM DOE Calculation
 - For state financial assistance? Yes ___ No ___ N/A ___
 - CPA FIRM DOE Calculation
- ix. A statement as to whether the auditee qualified as a low-risk auditee:
 - For federal awards? Yes ___ No ___ N/A ___
 - For state financial assistance? Yes ___ No ___ N/A ___

- x. Do programs identified by NJDOE review calculation as Type A or B major programs on the Schedules of Expenditures agree with those identified on the Schedules of Findings and Questioned Costs (Section I – Summary of Auditor’s Result) and the Single Audit Summary Sheet section D items #28 and #32:
- | | | | |
|---|---------|--------|---------|
| For federal awards and the SF-SAC? | Yes ___ | No ___ | N/A ___ |
| For state financial assistance? | Yes ___ | No ___ | N/A ___ |
| If No, has the program been audited in either of the two preceding years? | Yes ___ | No ___ | N/A ___ |
| For federal awards ? | Yes ___ | No ___ | N/A ___ |
| For state financial assistance? | Yes ___ | No ___ | N/A ___ |

- | | | | |
|---|---------|--------|---------|
| (b) Financial Statement Findings relating to the financial statements which are required to be reported in accordance with GAGAS? | Yes ___ | No ___ | N/A ___ |
| (c) Findings and questioned costs for Federal awards as per A-133 (Sec.510 (a) and (b))? | Yes ___ | No ___ | N/A ___ |
| (d) Findings and questioned costs for State financial assistance? | Yes ___ | No ___ | N/A ___ |

33. Does the Summary Schedule of Prior Audit Findings, for those Charter Schools in their second year of operation, include the following:

- | | | | |
|---|---------|--------|---------|
| (a) The reference numbers the auditor assigns to audit findings, including the fiscal year in which the finding initially occurred? | Yes ___ | No ___ | |
| (b) For repeat findings, the cross-reference to the current year audit finding number? | | | |
| (c) The status of all audit findings included in the prior audit’s schedule of findings and questioned costs relative to Federal awards and State Financial Assistance? | Yes ___ | No ___ | |
| (d) Audit findings reported in the prior audit’s summary schedule of prior audit findings as follows: | Yes ___ | No ___ | |
| i. When fully corrected the summary schedule need only list the findings and state that corrective action was taken. | Yes ___ | No ___ | N/A ___ |
| ii. When not corrected or only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken. | Yes ___ | No ___ | N/A ___ |

- iii. When corrective action is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation. Yes____ No____ N/A____
- iv. When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. Yes____ No____ N/A____
- 34. Has an acceptable Corrective Action Plan been submitted to the department with the Audit Synopsis through the county office of education? Yes____ No____
- 35. Has a copy of the Federal Data Collection Form as per USOMB Circular A-133 been received by the department if auditee expended over \$500,000 in federal financial assistance? Yes____ No____ N/A____

III. Charter School Governance

- 1. Does the charter school have a fully functioning board of trustees, including a president, secretary and treasurer?
Yes _____ No _____
- 2. Are any voting members of the board paid vendors or employees of the charter school?
Yes _____ No _____
- 3. Is the charter school maintaining custody of public school funds? Is an educational management company overseeing/controlling all fiscal operations?
- 4. Does the board on a monthly basis approve all expenditures?
Yes _____ No _____
- 5. Do the president and secretary of the board sign all checks?
Yes _____ No _____
- 6. Does the board receive monthly financial statements, which include a bill list and a budget to actual?
Yes _____ No _____

IV. Comments and Recommendations

1. Does the Auditors' Management Report contain comments as outlined in The Audit Program as to the accuracy and completeness of financial reports and claims for advances or reimbursement to federal agencies or their representatives (i.e. Food Service Fund) and Child Nutrition Requirements? Yes _____ No _____

2. Are all irregularities disclosed in the Audit Questionnaire included as comments and recommendations in the Auditor's Management Report? (All negative comments, exceptions, or noncompliance noted in the Audit Report should have a corresponding recommendation) Yes _____ No _____

If answer to question 2 is "No", briefly describe omitted comments and recommendations:

3. Does the Auditor's Management Report contain all the findings reported in the Single Audit Section of the CAFR? Yes _____ No _____ N/A _____

4. Does the Auditors' Management Report provide comments both negative and positive on significant findings and recommendations from the previous audit to determine whether appropriate corrective actions had been taken? Yes _____ No _____ N/A _____