

SECTION I – GENERAL COMPLIANCE
CHAPTER I

APPOINTMENT, SCOPE AND DECLARATION

Appointment of Auditor

N.J.S.A. 18A:23-8 requires that an audit of the accounts of a school district 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. In accordance with NJOMB Circular 04-04 (www.state.nj.us/infobank/circular/cir0404b.htm), school district management must obtain the audit firm's latest external quality control review report (peer review) prior to appointing said firm for the annual audit.

A district board of education should refer to *N.J.A.C.* 6A:23-2.2(i), for regulations on obtaining audit firm peer reviews <http://www.nj.gov/njded/code/current/title6a/chap23.pdf> . The code requires that districts engage only licensed public school accountants who have had a peer review performed in accordance with Government Auditing Standards, (Yellow Book) and that districts obtain a copy of the audit firm's peer review. The board of education is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

On June 25, 2003 the U.S. General Accounting office (GAO) released a new edition (2003) of Government Auditing Standards, commonly referred to as the Yellow Book. The new standards are applicable for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004. The 2003 Revision of the Yellow Book is available in electronic format at the GAO web site www.gao.gov . Printed copies of the 2003 Revision of the Yellow Book are available for purchase from the Government Printing Office. To order printed copies of Government Auditing Standards (2003 Revision), please contact the Government Printing Office, Superintendent of Documents at (202) 512-1800 or visit the GPO web site at <http://bookstore.gpo.gov>. When ordering the document, please refer to jacket #300-672 or stock # 020-000-00284-1.

Section 3.52 of the 2003 Yellow Book requires an external peer review of their auditing and attestation engagement practices at least once every 3 years. Section 3.55 requires that this report be provided to the party contracting for the audit (i.e. school district). Any firm that fails to provide the report is not in compliance with Government Auditing Standards.

The external quality control review determines whether the audit firm's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed. When deficiencies are found, the audit firm is expected to identify and take corrective measures to prevent the same types of deficiencies from happening in the future. Prior to appointing an audit firm for the annual audit, the district should carefully review the audit firm's latest external quality control review report taking into consideration the type of report issued (unqualified, qualified or adverse). When the type of report issued is other than an unqualified opinion, districts should discuss the report with the auditor taking into consideration the date of the report in relation to the audit period being contracted for, the nature of the noted deficiencies in relation to the services being contracted for, and if the deficiencies have been corrected and when. Districts may also contact the AICPA Peer Review Team or the New Jersey Society of Certified Public Accountants with general inquiries concerning the AICPA Peer Review Program and for assistance in understanding the Peer Review Program.

Rules of Professional Conduct

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

Cooperation with the Auditor

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

Scope of Audit

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

1. General Fund (including Fund 15 for Abbotts)
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds
5. Permanent Funds
6. Enterprise Funds and Internal Service Funds
7. Private Purpose Trust and Agency Funds
8. Student Activity Funds

The AICPA's Statement on Auditing Standards (SAS) No. 1 states that an auditor "has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud." 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. Passage of P.L. 2004, c.93 (S1701) signed into law on July 1, 2004 impacted New Jersey Title 18A by restricting transfers, establishing administrative cost limits, lowering the maximum surplus balance, and requiring voter approval for deposits into capital and maintenance reserve accounts. Auditors should give consideration to the risk of violations of this law, in particular, miscoding administration costs. Documentation of consideration of this risk consistent with SAS No. 99 should be included in auditor workpapers.

In May 2002 GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Effective for fiscal years beginning after June 15, 2003 it is recommended that district auditors consider the materiality of closely related organizations such as an education foundation or booster club, when determining whether to discretely present the statements of that organization in the district's CAFR as a component unit. Paragraph 6 of GASB 39 states, "It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity."

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

Responsibility for the preparation of the CAFR rests with the school district. It is understood that some districts may need assistance in preparing the CAFR. Arrangement for assistance should be negotiated between the district and the public school accountant. A clear understanding of the roles of each party should be reached as close to the start of the audit fieldwork as possible.

Responsibility for the completion of the Audit Summary Worksheet (Audsum) diskette rests with the auditor. The school district is responsible for the transmission of 2005-06 Audsum to the DOE. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the diskette and signing off on the transmittal letter as to the accuracy of the information. Signatures of both the auditor and School Board Secretary/Business Administrator are required.

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

Declaration of Accountant

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

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

THIS PAGE INTENTIONALLY LEFT BLANK

SECTION 1 GENERAL COMPLIANCE
CHAPTER 2

MEETINGS AND MINUTES

Meetings of Public Bodies - The Sunshine Law

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

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

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

- a. A list of all employees, salaries and wages approved by the board.
- b. The final approved budget upon which taxes were based and details of the public hearing on the budget.
- c. Details of the annual organization meeting of the board, including the results of the election.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the secretary and the treasurer.
- f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.
- g. Full detail of budget transfers, including affirmative vote by two thirds of board for applicable transfers.
- h. Capital Improvement Authorizations, Proposals and/or Adoptions.
- i. Requests for Local Property Taxes.
- j. Travel and expense reimbursement policy.

Minute Records

The proceedings of the meeting of the board of education or board of school estimate should be recorded in a bound or an acceptable loose-leaf type minute book and signed by the secretary. The minutes should be reviewed by the auditor. This procedure is necessary to check on the actions of the board of education, particularly with respect to the proceedings of the annual or special district meetings (elections) in Type II districts, the submission of monthly financial reports, the approval of claims, request for taxes, adoption of the budget, budget amendments, advertisements for bids and other financial matters of importance to the auditor. Minutes must include as a minimum the requirements of the "Sunshine Law" per N.J.S.A. 10:4-6 et seq.

THIS PAGE INTENTIONALLY LEFT BLANK

SECTION 1 GENERAL COMPLIANCE
CHAPTER 3

ASSA & DRTRS

APPLICATION FOR STATE SCHOOL AID (ASSA)

Overview

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

- 1) On-roll full and shared students (regular and special ed/tier) including related services if applicable.
- 2) Private school for the disabled students including related service if applicable.
- 3) Low income enrollment.
- 4) Bilingual students (kindergarten through 12)

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

The Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA) requires state aid to be calculated from enrollments projected by the Commissioner using actual enrollment data from prior years. Actual October 14, 2005 ASSA data is to be used for various purposes such as calculation of School Choice Aid, Education Opportunity aid and federal entitlement programs by the Office of School Funding, therefore, the accuracy of this data must be ensured.

Charter school students were to be considered enrolled in their resident district and were to be counted as if they attended their home school. These students were to be reported in accordance with the 2006-2007 Application for State School Aid Instructions, page 26.

Choice program students were to be reported by the choice district on the ASSA. Choice districts in the Interdistrict Public School Choice Program were to enter data for those students in accordance with the 2006-2007 Application for State School Aid Instructions, pages 27 to 30.

All educationally disabled (special education) students are counted on the ASSA according to the classification (tier) under which they were found eligible for special education. Each classified student is eligible to receive aid for up to four different related services categories. Related services students are classified students resident in the district who are classified for other than speech correction services and receive related services including, but not limited to, counseling, occupational therapy, physical therapy, and speech language therapy. These students are included in the district's ASSA summary report as Tier II, Tier III or Tier IV students. The "tier category" reporting must be verified as part of your on roll – full/shared and private school testing.

School districts must complete a set of workpapers which document the compilation of register data for the ASSA student count and provide an audit trail for the auditor to use as a basis for testing. School districts must also prepare written internal procedures that provide a description of the October 14, 2005 count process. The procedures should describe how the count was taken, who was responsible for compiling the data and submitting the ASSA data, and the various personnel assigned responsibilities for

collection of the data. The workpapers, original supporting documentation and internal procedures must be maintained on file for a period of seven years.

Determining Sample Size

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

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

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

Sample Selection and Test Procedures

1. **On Roll - Full/Shared Including Home Instruction** -- At a minimum, at least one register from each enrollment category, including self-contained special class programs (tiers), must be tested to verify that the number of students enrolled on October 14, 2005 agrees with the associated number reflected on the district's workpapers and on the ASSA. All Home Instruction students must be entered by name in the school register with attendance code "7". These students are included in the on-roll count rather than as a separate category on the ASSA. On Roll counts must also include 3 year old and 4 year old preschool students (not preschool disabled) from district school registers in the appropriate ASSA lines. If, after reviewing one register per category, the total sample size is less than that reflected on the table for the total population, additional registers must be tested until the appropriate sample size is achieved.

When testing please note the "tier" reporting for educationally disabled students and that students reported by grade should not include any classified disabled students (see below for explanation of the reporting "tiers"). If the workpapers do not agree with the ASSA, those variances must be reported on the Schedule of Audited Enrollments as well.

Special Education Tiers

All educationally disabled students were to be reported in their appropriate special education “tier category” (see below) based upon the student’s eligibility category and not on the program they are receiving.

Educationally disabled students who are graded are assigned to a level in the “tier category” based on the following grade level table:

<u>Grade Level (as of 10/14/05)</u>	<u>School</u>
K-5	Elementary School
6-8	Middle School
9-12	High School

Educationally disabled students who are un-graded (Self Contained) are assigned to a “tier category” based on the following age based table:

<u>Age (as of 10/14/05)</u>	<u>School</u>
10 and under	Elementary School
11-13	Middle School
14-21	High School

Students reported by grade should not include any classified disabled students. All classified disabled students should be reported in their appropriate “Tier” category. Students must be listed in the appropriate Tier category based upon the student’s individualized education program (IEP). Please note that the school register is maintained by program type with an identification field to indicate a student’s special education classification. The identification field is the information source used for reporting classified disabled students on the ASSA by classification. **Classified disabled students are not routinely reported on the ASSA based on the school register they are included in but rather by their classification.**

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

Pursuant to N.J.A.C. 6A:14-4.7, special class programs are defined as serving students with similar educational needs in accordance with their IEPs. The following tiers are described for audit evaluation.

Tier I Includes the number of special education (SE) classified students receiving each related service (up to four per student). Related services pupils are pupils classified for other than speech-language services, resident in the district, who receive related services including, but not limited to, counseling, occupational therapy, physical therapy and speech language therapy. Classified pupils are eligible to receive aid for up to four services under Tier I of the special education aid formula. These students are shown on lines 52 through 56 on the 2006-2007 ASSA and are also to be included in Tier II, III, or IV.

Tier II Includes students resident in the district not receiving Tier IV intensive services meeting the eligibility criteria for one of the following:

- Specific learning disabled

- Traumatic brain injury
- Cognitively impaired-mild
- Preschool disabled
- All classified pupils receiving services pursuant to chapter 46 of Title 18A in shared time county vocational programs in a county vocational school which does not have a full child study team and non-classified students in state training schools or secure care facilities.

Tier III Includes students resident in the district not receiving Tier IV intensive services and meeting the eligibility criteria for cognitively impaired-moderate, orthopedically impaired, auditorily impaired, communication impaired, emotionally disturbed, multiply disabled, other health impaired or visually impaired and nonclassified students in juvenile community programs.

Tier IV Includes students classified as eligible for special education resident in the district, receiving intensive services. Tier IV students are students resident in the district meeting the eligibility criteria for autistic or cognitively impaired-severe, and other students who receive one or more of the following intensive services that must be specified in the pupil's IEP:

1. Individual Instruction
2. Pupil:Teacher-Aide Ratio of 3:1 or Less
3. High Level Assistive Technology
4. Extended School Year (at least 30 days in addition to the school year)
5. Intensive Related Services
6. Interpreter Services
7. Personal Aide
8. Residential Placement for Educational Purposes
9. Individual Nursing Services

Auditor's Note – A student that has a special education classification and is receiving any one or more of the intensive services listed above (traced to a student's IEP) should be reported in Tier IV and not included in Tier II or III.

2. **Private Schools** -- Obtain the workpapers prepared by the district and verify that for each student listed there is a tuition contract with an approved Private School for the Disabled on file, which was in effect on October 14, 2005. Based on the total contracts the auditor should use the table to determine an appropriate sample size. The sample should be tested against private school tuition bills for October in order to determine that these pupils were in fact enrolled and that tuition was paid. The students will be identified by their initials and each student's number of enrolled days will be listed for the month. The per diem rate must be the same as the rate identified in the private school contract. This count may also include preschool disabled students placed in early childhood programs as per the provisions contained in N.J.A.C. 6A:14-4.3(c). An appropriate tuition contract must be on file as well as supporting documentation for the tuition payment. Any unresolved differences must be identified as an audit exception.

It must also be verified that the students included in the sample are reported under the appropriate tier category (see above special education tiers section for explanation of the reporting "tiers"). If a pupil is a related services pupil for other than speech-language correction services, ensure that they were also included in the applicable related services count (i.e. counseling, occupational therapy, physical therapy, speech therapy and other) on lines 52-56 of the ASSA. Verify private school enrollment shown on the Schedule of Audited Enrollments reflects only those pupils with a contract, adjusted for those pupils in the sample which were not properly reflected on the October bill.

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

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

Low-income eligible students are resident and non-resident students eligible for free meals or free milk who are part of the districts' enrollment. Students eligible for free meals or free milk are those students who have been determined to be eligible under the National School Lunch Act and the Child Nutrition Act as of the last school day prior to October 16 (October 14, 2005).

For the sample selected, verify that there are valid "Applications for Free and Reduced Price Meals" or "Free Milk" on file to support the number of pupils reported. A valid application is one that contains all required information and signatures. For those districts that elected direct certification, verify that the pupil is included on the direct certification list maintained by the central office. Trace the applications (or direct certifications) to the registers to ensure that the students were on roll as of the last school day prior to October 16 (October 14, 2005). Only those students eligible for Free Meals (not reduced meals) or Free Milk as of the last school day prior to October 16 are low-income students for the purposes of state aid and only those students should be reported as low-income eligible students in the ASSA. Districts which send low-income eligible students to the following programs may include those students as part of their low income count (Low Income Out of District Students), provided that a valid application is on file for the student at the resident district:

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

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

4. **Bilingual Education** -- Bilingual education programs are provided to students identified as limited English proficient (LEP) to help them develop academic skills while acquiring English language skills. There are currently three programs as follows:
- Bilingual programs with content area instruction in the native language provided when there are 20 or more LEP students of a single language group in a district.
 - ESL-only (ESL) programs are provided when there are 10 or more LEP students in a district.

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

Program plans for Bilingual, ESL-only and ELS programs are submitted every three years. The current three-year cycle began in July 2005, and will end in 2008. All programs operate from September to June.

Bilingual, ESL or ELS programs are provided to students identified as LEP by a state established standard on an English language proficiency test. The following students who are enrolled in the district as of October 14, 2005 are eligible to be reported:

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

The number of eligible students must be supported by a listing by school which includes each student's name and the number of the register on which they are enrolled. LEP students counted in bilingual education cannot also be counted in a special education tier category.

Based on the total LEP students reported (Line 58 of the ASSA), the auditor should use the table on page I-3.2 to determine an appropriate sample size. Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15. Verify that the LEA submitted a Bilingual, ESL or ELS plan to the department that received approval.

Districts may use one of three tests to identify students of LEP:

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

To verify LEP eligibility, first determine that the student falls below the language proficiency standard specific to the test (see the following pages) and meets at least one other indicator as per *N.J.A.C. 6A:15-1.3(b)*. Other indicators include the following:

- Reading level in English;
- Previous academic performance;
- Achievement on standardized tests in English; and
- Judgment of the teaching staff members responsible for the educational program of the student.

Note that the bilingual education code (*N.J.A.C. 6A:15-1.10*) stipulates that LEP students can be exited from bilingual/ESL/ELS program services when they have demonstrated readiness to function successfully in an English-only program on the basis of their score/level on a language proficiency test and multiple indicators including, but not limited to those listed above. Thus, some students may be retained for program services even though their language proficiency test scores are at the standard. Districts may continue to report these students as LEP on the ASSA.

The Schedule of Audited Enrollments that is required to be included in the Auditors' Management Report includes a section for the bilingual category.

Further information on the bilingual program can be found on the web site:

http://www.state.nj.us/njded/bilingual/resources/prof_tests.shtml

Language Proficiency Test Standards for Determining Limited English Proficiency

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

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

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

Standard

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

Other indicators include the following:

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

IDEA Proficiency Test (IPT) - Ballard and Tighe Publishers

Use the IPT designations to determine program placement.

- Oral Tests
 - Non-English Speaker
 - Limited-English Speaker
 - Fluent-English Speaker

- Reading Tests
 - Non-English Reader
 - Limited-English Reader
 - Competent-English Reader

- Writing Tests
 - Non-English Writer
 - Limited-English Writer
 - Competent-English Writer

Standard

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

Other indicators include the following:

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

Using Multiple Criteria for Program Entry and Exit

Districts must continue to 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 and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services.

MACII Test of English Language Proficiency - Touchstone Applied Science Associates Publishers

Use the Standard Score Cut Points to determine program placement.

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

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

Using Multiple Criteria for Program Entry and Exit

Districts must continue to use multiple indicators, as specified in code (*N.J.A.C. 6A:15-1.3(b)* and *6A:15-1.10(b)*) to determine which students need English as a Second Language (ESL) and/or bilingual program

support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services. Use of the multiple indicators is particularly important when a student's test score is close to a cut point (as determined by the standard error of measurement (SEM)). These other indicators include:

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

ADDITIONAL AUDIT PROCEDURES TO BE PERFORMED ON THE ASSA

In addition to the testing of enrollment reported, the public school accountant must also verify that the district maintains written internal procedures which provide a description of the October 14, 2005 count process.

These written procedures must include the following information:

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

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

A memo was distributed to all school districts regarding the necessary records that were required to be maintained to support the data included in the October 14, 2005 ASSA. Copies of the suggested sample formats for supporting workpapers were distributed with the memo. As noted in the memo, the data reported on the ASSA must be clearly documented and should be on file at the district. The memo, instructions, and a Q & A document may be obtained from the website:

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

ADDITIONAL PROCEDURES FOR SCHOOL BASED MEDICAID REIMBURSEMENT PROGRAMS

The State of New Jersey, Department of the Treasury administers two separate and distinct Medicaid school reimbursement programs: Direct Service – Special Education Medicaid Initiative (SEMI) and Medicaid Administrative Claiming (MAC). Related services, evaluation services, and specialized transportation are SEMI activities for which a district may submit claims. A student's IEP is the beginning documentation for determining needed services. In addition, school districts are required to have all necessary documentation on file for review to support all claims for services performed as indicated in Chapter IV-3, "Service Descriptions and Documentation Requirements" of the SEMI Handbook or Chapter 4, "Covered Services and Practitioner Qualifications" and Chapter 5, "Service Documentation Requirements" of the updated SEMI handbook. The SEMI handbook has been updated and the revision, issued in the spring of 2006, is effective June 1, 2006. The Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to provide billing services for SEMI and MAC. Effective October 1, 2005, districts began documenting services via PCG's Easy TRAC system. EasyTRAC is a web based application used to capture related services encounter information. See Chapter 5, "Service Documentation Requirements" for the documentation required when using Easy TRAC. The contact at PCG is Lori Bemby (609) 275-0250.

Audit procedures involve testing to determine that documentation is being maintained by school districts. Districts were reminded of the importance of maintaining the proper documentation via letter issued by the Department of the Treasury dated June 11, 2003. See the next page for a copy of the letter. 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.



State of New Jersey
OFFICE OF THE STATE TREASURER
PO Box 002
TRENTON NJ 08625-0002

JAMES E. MCGREBEY
Governor

JOHN E. MCCORMAC, C.P.A.
State Treasurer

TO: School Administrators

FROM: John E. McCormac, State Treasurer
Department of Treasury *John McCormac*

William L. Librera, Commissioner *WL*
Department of Education

DATE: June 11, 2003

SUBJECT: Special Education Medicaid Initiative (SEMI)

We are writing to remind you of the requirements for billings under the Special Education Medicaid Initiative (SEMI) program.

As you know, SEMI allows both the State and the local school districts to receive federal dollars to offset the cost of providing medical services, such as therapy services to Medicaid eligible children in the schools.

Enclosed is a copy of the SEMI Handbook which outlines all the requirements that must be met for a school to receive the federal dollars generated under SEMI.

The SEMI Handbook describes various documentation requirements necessary for the implementation of the SEMI program. Throughout the handbook there are items needed to support the claiming of services. They include such things as maintaining parental consent forms and IEPs to indicate that certain services are claimable.

When reviewing the SEMI handbook, pay special attention to Chapter IV: Service Descriptions and Documentation Requirements. This section specifies what activities are considered billable under SEMI and describes evaluations and related services. In addition, this section indicates what documentation is necessary to support a claim for reimbursement. These include such things as physicians' orders for nursing services and physical therapy, as well as the importance of the IEP in determining why a service has been recommended.

If you have any questions regarding the SEMI program, please contact Lori Bemby of MAXIMUS. Ms. Bemby can be reached by telephone at (800) 618-7364 extension 200 or via email at loribemby@maximus.com.

DISTRICT REPORT OF TRANSPORTED RESIDENT STUDENTS (DRTRS)

Overview

Auditors are required to perform detailed testing procedures relating to student transportation as reported on the 2005-06 District Report of Transported Resident Students (DRTRS). The county eligibility summary report (distributed by County offices) is a compilation of district data by district and should agree to the DRTRS Summary Report produced by the DRTRS data collection software at the district. Districts should have a paper copy of the report produced by the software or provide auditors with the ability to view student data on-line using the DRTRS data collection software. The district level data is reported in the four part (A through D) DRTRS Summary Report. The format of the DRTRS report generated at the district was revised in 2004-05 primarily to identify preschool students (Grade PK). Part B has been combined with Part A and the line "Public School Students" was broken out into three lines – A-1) Students – Grade PK, A-2) Public School Students Excl. Voc. Students, and A-3) Vocational School Students. Beginning 2004-05 there is no longer the distinction that districts receiving ECPA complete Part A and districts not receiving ECPA complete Part B. The following crosswalk to the county DRTRS Eligibility Summary Report should be used by auditors when agreeing the category totals:

- The sum of lines A-1 (if the district is ECPA eligible), A-2, A-3, A-4 and A-5 should agree to the REG PUB Column.
- Line A-6 should agree to the column, TRANS NONPUBLIC
- Line A-7 should agree to the column, AIL.
- The sum of lines A-8, A-9 and A-10 should agree to the column, REG SPEC.
- The sum of lines B-1, B-2, B-3, B-6, B-7, and B-8 should agree to the column, SPEC ED SPEC.

Sample Size

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

Sample Selection and Test Procedures

- Obtain from the district, a county summary (distributed by the County offices) of the 2005-06 DRTRS Eligibility Summary Report produced by the department.
- Auditors should first agree the county DRTRS Eligibility Summary Report to the district DRTRS Summary Report using the above crosswalk.
- If the county summary has lower numbers, inquire of appropriate district personnel as to whether the district has received notification of duplicate students on their DRTRS.
- Any discrepancies should be noted on the ASSA Schedule of Audited Enrollments.
- Auditors are also required to perform the procedures listed below related to the DRTRS.

Eligible Regular Students/(REG PUB)

Eligible Regular Students (REG PUB, of the county DRTRS report) includes pupils from the District level DRTRS Summary Report under Part A, lines 1, 2, 3, 4 and 5 of the District DRTRS ("Eligible REGULAR") Please note that regular preschool students, line A-1, would be counted as eligible for aid if the district qualifies for early childhood aid pursuant to N.J.S.A. 18A:7F-16 and the student meets the on-roll and remote mileage requirement of 2.1 miles or more.

Verify the on-roll status of students reported on the District Report of Transported Resident Students. In order to verify on roll status as of October 14, 2005:

- Trace the public school students to the school registers;

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

If any errors are noted during the verification of the on roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. The revised format includes two new lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School mileage Excluding Grade PK. The auditor no longer needs to make two computations when computing average mileage: (one that includes regular pre-kindergarten students and one without those students) since this information is provided in the revised report. Reconciling differences may be due to Vocational Technical shared time students counted twice, duplication of pupil records.

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

Eligible Regular Special Education Students (without special transportation needs), (REG SPEC, of the county DRTRS report) includes pupils in the district DRTRS Summary Report under Part A, lines 8 through 10 of the district DRTRS report ("Eligible REGULAR STUDENTS") Please note that regular special education preschool students would be counted as eligible for aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more or whose Individualized Education Program (I.E.P.) requires transportation, regardless of whether the district qualifies for early childhood aid pursuant to N.J.S.A. 18A:7F-16 or not.

A regular special education student that has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P that does not include a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P specifically requires the student to be transported. In order to verify on roll status as of October 14, 2005, trace public school students in this category to the school registers. Private School for the Disabled students on roll status should be verified with a valid tuition contract and October 2005 tuition voucher.

If any errors are noted during the verification of the on roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. As noted above, the revised report has two new lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School Mileage Excluding Grade PK. The auditor no longer needs to perform two computations when computing average mileage: one that includes regular pre-kindergarten students and one without those students since that information is in the report.

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

Eligible Special Education Students includes all special education students transported outside the district and those with special transportation needs. Column 6, TOTAL SPEC ED SPEC NEEDS of the county DRTRS report) includes pupils in the DRTRS Summary Report under Part B, lines 1,2,3, 6, 7, and 8 of the district DRTRS report ("Eligible SPECIAL EDUCATION STUDENTS with Special Transportation Needs and Out of-District Special Education Students without Special Transportation Needs" section). Please note that special education pre-kindergarten students would be counted as eligible for aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more or whose IEP requires transportation, regardless of whether the district qualifies for early childhood aid pursuant to N.J.S.A. 18A:7F-16 or not.

A special education student who has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an IEP that includes a special transportation need (such as a wheelchair vehicle, an aide, or an extended

year program) must meet the remote mileage requirement to be eligible unless the IEP specifically requires the student to be transported. In order to verify on roll status as of October 14, 2005, trace public school students to the school registers.

Private School for the Disabled students on roll status should be verified with a valid tuition contract and October 2005 tuition voucher. If any errors are noted during the verification of the on roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in.

Additional Audit Procedures - Transportation

The following procedures regarding transportation must also be performed:

- (1) Verify that invoices for purchases of goods and services are transportation related.
- (2) Verify that proper bidding procedures and award of contracts are being followed by the district in accordance with N.J.S.A. 18A:39-2 and N.J.S.A. 18A:39-3, and N.J.A.C. 6A:27-9.
- (3) Verify that bid specifications for bus purchases were properly bid and awarded in accordance with N.J.S.A.18A:18A-1 et seq.
- (4) Verify that leases for school buses do not exceed ten years (N.J.S.A. 18A:18A-42(f)).
- (5) Verify that transportation contracts and renewals are properly prepared and contain all necessary documents and affidavits.
- (6) Verify that a completed (B8T) signed by the Chief School Administrator of the nonpublic school lists all nonpublic students who are transported or whose parents received aid-in-lieu of transportation.
- (7) Review both regular and special needs student transportation expenditures relative to the applicable count on the DRTRS for reasonableness and consistency between the summary numbers and transportation expenditures.
- (8) Reference the Transportation Aid chapter of the *State Aid/Grant Compliance Supplement*.

THIS PAGE INTENTIONALLY LEFT BLANK

SECTION I – GENERAL COMPLIANCE
CHAPTER 4

BUDGET & TRANSFERS

The Budget

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

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

- a. The Board of School Estimate in districts in which that body fixes and determines the tax levy;
- b. The electorate in those districts in which the tax levy is voted upon at the annual school election;
- c. The municipal governing body or bodies where items were rejected by the electorate;
- d. The act of the Commissioner in the event the governing body or bodies of such municipalities fail to certify.

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

Pursuant to *N.J.S.A.* 18A:22-44.2, districts were to record the last State aid payment of the school budget year (2005-06) as revenue for budget purposes only in the current school budget year (2005-06) accounting records. “Any negative unreserved undesignated fund balance that is a direct result of a delayed State aid payment for the current school budget year which is not made until the following school budget year shall not be considered a violation of any law or regulation and in need corrective action.” (See section I-8 for further details).

Budget Transfers

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A board of education may not approve encumbrances or expenditures that will create deficits in line items. A board of education may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances and pursuant to *N.J.A.C.* 6A:23A-2.3 or *N.J.A.C.* 6A:10A-8.2 for Abbott school districts. A board of education may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers approved by the chief school administrator shall be reported to the board, ratified, and duly recorded in the minutes at a subsequent meeting of the board but not less than monthly.

For all line-item transfers from an advertised appropriation account as defined under *N.J.A.C.* 6A:23A-2.3, a two-thirds affirmative vote of the authorized membership of the school board is required pursuant to *N.J.S.A.* 18A:22-8.1.

Line-item transfers from an advertised appropriation account as defined under *N.J.A.C.* 6A:23A-2.3, which on a cumulative basis exceed 10 percent of the amount included in the original budget, require

county superintendent approval for non-Abbott school districts and Assistant Commissioner for Abbott Implementation approval for Abbott school districts. A transfer request is deemed approved after 10 working days of receipt by the county superintendent when no written approval or denial is provided within that timeframe. The burden is on the district to provide supporting documentation of receipt by the county superintendent. (*N.J.A.C.* 6A:23A-2.3(e))

Line-item transfers to an advertised appropriation account identified as general administration, school administration, central services and administrative information technology or other support services that, on a cumulative basis, exceed 10 percent of the amount included in the original budget, require county superintendent approval. (*N.J.A.C.* 6A:23A-2.3(f))

In addition to the above noted transfers, transfers to capital outlay excluding equipment (for non-referenda projects; all transfers to referenda projects require voter or board of school estimate approval) require approval by the county superintendent (or Assistant Commissioner for Abbott Implementation for Abbott school districts) and may be approved only to supplement a capital project previously approved by the voters or board of school estimate for an “emergent circumstance.” (*N.J.A.C.* 6A:23A-2.3(g))

N.J.A.C. 6A:23A-2.3(h) states that each district shall maintain a report of current month and year-to-date transfers between advertised general fund appropriation accounts as defined in *N.J.A.C.* 6A:23A-2.3 in a format prescribed by the Commissioner or in a format developed locally and approved by the county superintendent. In a December 17, 2004 letter, the department provided school districts a transfer worksheet that should be completed monthly. The worksheet and other related S1701 documents, such as a Q & A are available at <http://www.nj.gov/njded/finance/fp/af/s1701/>. Abbott school districts using a format developed locally were required to obtain approval from the Assistant Commissioner for Abbott Implementation to use that format.

Pursuant to *N.J.A.C.* 6A:23A-2.3, departmental approval is required for appropriation of surplus or other unbudgeted or underbudgeted revenue except for specific revenue sources identified in the administrative code (*N.J.A.C.* 6A:23A-2.3(c)). The six specified revenue sources are as follows:

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

Prior to April 1, appropriation of surplus or other unbudgeted or underbudgeted revenue (except for those exempted under *N.J.A.C.* 6A:23A-2.3(c)) is not permitted unless by a two-thirds affirmative vote of the authorized membership of the school board the board petitions the commissioner for an “emergent circumstance.” The district is required to submit to the department, board certification of an emergent circumstance that cannot be completed with current appropriations and a copy of the most current board secretary report.

Between April 1 and June 30, regional Assistant Commissioner or county superintendent approval (Assistant Commissioner for Abbott Implementation approval for Abbott school districts) and two-thirds

affirmative vote of the authorized membership of the school board are required for the appropriation of surplus or other unbudgeted or underbudgeted revenue. The district is required to submit to the department, board certification that the appropriation is necessary to achieve the thoroughness standards and a copy of the most current board secretary report.

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

N.J.S.A. 18A:7G-13 and 31, as amended by S1701, no longer permits districts to transfer by board resolution surplus to the capital or maintenance reserve account at any time during the budget year. Pursuant to *N.J.A.C.* 6A:23A-2.6, a district may increase the capital reserve or maintenance reserve balance by appropriating funds in the annual general fund budget certified for taxes or may request express voter approval by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2.

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

Districts that presented an additional spending proposal to the voters or board of school estimate are subject to the provisions of *N.J.A.C.* 6A:23-8.5, and districts that included a capital outlay spending growth limitation adjustment are subject to the provisions of *N.J.A.C.* 6A:23-8.8(a). See page II-10.11 of this Audit Program for further guidance in those situations.

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

When specifically approved by the voters or board of school estimate or the Commissioner, districts may transfer surplus from the general fund to the capital projects fund. Such transfers should be shown in the CAFR as an operating transfer with the appropriate disclosure made in the notes to the financial statements. Unexpended bond proceeds for pre-EFCFA bonds that are on hand one year or longer, for which there is no new purpose for the unexpended funds, may be transferred to either the general fund or the debt service fund by board resolution. See related discussion on Bond Sales and Capital Projects Fund in Section II – Fund 30.

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

Interfund balances

District wide statements (accrual basis)

GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Assets* except for the net residual amounts due between governmental and business-type activities,

which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Assets* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the “doubling-up” effect of internal service fund activity.

Funds statements (modified accrual basis)

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

Interfund Note disclosures

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

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

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

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

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

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

BIDS & CONTRACTS/PURCHASING

Bids & Contracts

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 boards of education 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. Local Finance Notice 2006-3 provides guidance to assist boards of education and their legal counsel in complying with the law. That notice, and other pay-to-play documents are posted on the DLGS Pay-to-Play website at : www.nj.gov/dca/lgs/p2p.

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/pscl.

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

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

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

N.J.S.A. 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. In addition, the statute was amended in 1999 to provide for an even higher threshold when there is a "Qualified Purchasing Agent" in the district as defined at *N.J.A.C. 5:34-1.1* and certified upon approval of an application submitted to DCA. Pursuant to *N.J.S.A. 18A:18A-3(b)*, the bid threshold was raised to \$21,000, effective July 1, 2005. For districts 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, the contract may be awarded by a purchasing agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefore, except that the board of education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

"If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L.1971, c.198 (C.40A:11-9), the board of education may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section."

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

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

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

“Every contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the board of education to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.

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

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

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

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

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

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

N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing

of the circumstances and the need to invoke such action. Pursuant to this statute, districts must also comply with the implementing regulations at *N.J.A.C. 5:34-6.1* and *N.J.A.C. 6A:26-3.16*.

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

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

- establishes the requirement for a prospective bidder to challenge bid specifications in writing no less than three business days prior to bid opening.
- subsection (c) defines the discrimination clause to include creed, color, ancestry, marital status, affectional or sexual orientation, etc.
- allows that goods/services purchased by funds from a bequest, legacy or gift that specifies a manufacturer or vendor may be treated as an exception to the bidding requirement.

N.J.S.A. 18A:18A-21 addresses the requirements for advertising bids and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. P.L. 2005, c.191 amended *N.J.S.A. 18A:18A-21* and makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids.

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

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

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

Subsection (c) describes the requirements for small purchases.

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

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

Pursuant to *N.J.S.A. 18A:39-3*, the threshold for bidding of transportation contracts is \$15,000. *18A:18A:49.1* states “the provisions of this chapter shall not apply to contracts for the transportation of pupils to and from school, which contracts are regulated by Chapter 39 of this Title.”

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

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

<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
(12) Driver Education	3
(13) Goods and Services for the purpose of conserving energy	15
(14) Any single project for construction, reconstruction or rehabilitation of any public building for length of time authorized for completion of actual construction.	Length of Time Authorized
(15) Laundry Service	3
(16) Purchases under contract awarded by Division of Purchase and Property in Treasury	Term not to exceed term of Contract

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

Energy Service Contracts

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

Pursuant to *N.J.S.A.* 18A:18A-42(j), districts may enter into a contract for energy services (ESCs) up to fifteen years. This provision does NOT authorize a district to enter into a debt arrangement (lease purchase or conventional loan) for fifteen years to finance the installation of the conservation measures. Districts are allowed under statute to enter into an LPA for five years or less (*N.J.S.A.* 18A:20-4.2(f)), and only when the payments for such lease purchase agreements can be included within the district's budget cap without causing the district to require voter or board of school estimate approval of any additional spending proposal for existing instructional programs and activities. Pursuant to this provision, the School Construction Corporation (SCC/EDA) will not fund any projects that are funded with LPAs or bank loans that exceed five years.

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.

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

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

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be shown in the June 30th general fund balance sheet as a reserve for encumbrances. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. In most cases, any other orders should be canceled.

As documentation of the review, districts must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the June 30th balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the June 30th balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund. Local school district auditors must review the lists and their related documentation and challenge the propriety of the district's classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

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

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

Credit Cards

Neither boards of education nor district officials may use credit cards for the purchase of goods and services. Statutory requirements direct how boards of education may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by boards of education must comply with *N.J.S.A. 18A:18A-1 et seq.*, the Public School Contracts Law. The payment of claims by a board of education must also comply with *N.J.S.A. 18A:19-1 et seq.*, "Expenditure of Funds; Audit and Payment of Claims." These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to *N.J.S.A. 18A:19-13* and *N.J.A.C. 6A:23-2.9*, a board of education may establish a petty cash fund on July 1st of each year, or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

THIS PAGE INTENTIONALLY LEFT BLANK

SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATION

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

New Jersey statute (*N.J.S.A.* 18A:4-14) requires that New Jersey school districts maintain bookkeeping consistent with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and with generally accepted accounting principles (GAAP), which includes a double-entry, self balancing set of accounts and records. The New Jersey Administrative Code, *N.J.A.C.* 6A:23, Subchapter 2 prescribes further regulation regarding the accounting.

N.J.A.C. 6A:23-2.2(g) requires that the district board of education adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (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 district for these summarized special projects. If a district opts to expand beyond the minimum outline in its chart of accounts, there must be a clear trail from the internal accounting records to the information summarized in the format of the minimum outline reflected in the budget statement. In addition, *N.J.A.C.* 6:23-2.11(a)2 states that when a board of education adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a district fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a school district's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A:4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records, but instead gives general descriptions of each in the manual. Local school district auditors must be adequately familiar with the publication to perform the annual audit. Posted on the department's website at <http://www.nj.gov/njded/finance/fp/af/> are "Questions and Answers on ERIP" (Q. 9 through Q. 15) which includes information on accounting and year end reporting for ERIP.

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:23-2.7 requires that district boards of education which contract for electronic data processing bookkeeping services shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by *Statement of Auditing Standards No. 70 (SAS 70)*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

Expenditure Classifications and Reporting

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

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

The *General Fund Budgetary Comparison Schedule* (Exhibit C-1) reflects the GAAP modified accrual basis for revenues with the exception of the last state aid payment which is recognized as revenue for budgetary purposes but deferred for GAAP purposes, and GAAP for expenditures.

The *Special Revenue Budgetary Comparison Schedule* (Exhibit C-2) reflects revenues and expenditures on a budgetary basis where encumbrances at fiscal year end are recorded as expenditures and corresponding revenue is recognized. The last state aid payment is also recognized as revenue for budgetary purposes. For the special revenue fund, GAAP expenditures are calculated as budgetary expenditures plus June 30 prior year encumbrances less June 30 current year encumbrances. The expenditure information presented in the schedules of federal expenditures and state financial assistance is on the budgetary basis.

The original budget as well as the final approved budget as of June 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. Auditors should refer to Appendix F “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2005-06 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2005-06 Budget Guidelines* is the section “Detailed Appropriations Grid” and it should also be used as a reference tool.

The restricted entitlement funds (Demonstrably Effective Program Aid, Early Childhood Program Aid, Distance Learning Network Aid, and Instructional Supplement Aid) created under CEIFA must be accounted for in the special revenue fund at the object level between the instruction, support services, and facilities and acquisition functions, following the uniform grant project budget statement coding structure. Beginning in 2003-04, districts receiving Demonstrably Effective Program Aid, are no longer required to track expenditures by strategy/program, only by location. 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. Beginning in 2004-05, non-Abbott districts receiving ECPA were required to maintain separate accounts for pre-kindergarten, kindergarten and grades 1-3 in the district’s financial records of the special revenue fund. 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.

Auditor’s Note – Auditors should review *The Abbott Addendum* for items that specifically relate to Abbott districts.

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 2004-05 Budget Guidelines). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23-2.2(g)* and noted instances must be reported in the Auditor’s Management Report. Auditors are directed to test the proper coding of expenditures during their review of the districts’ internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested

for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

Classification of Administrative Expenditures

N.J.S.A. 18A:7F-5c as amended by P.L. 2004, c.73 (S1701), signed into law on July 1, 2004, requires that all regular non-vocational districts submit budgets in which the advertised per pupil administrative costs are within the applicable administrative limit. Due to the restrictions on increasing administration costs, auditors should include as part of their tests of compliance with laws and regulations, an examination of payroll and certain other costs for potential miscoding in administrative expenditures.

As highlighted in section III-6 of this audit program under “Checklist for Annual Audit”, the board secretary/business administrator is required to provide the auditor with a salary schedule detailing all staff whose position requires a school administrative, principal or school business administrator certificate pursuant to *N.J.A.C.* 6A:9-12.3. Such positions should include superintendent, assistant superintendent, school business administrator, director, principal, assistant/vice principal. The format should include the title, salary, general ledger account code(s), and if all or part of each salary is not coded to a general ledger administrative function (230, 240, 25X, or 290), provide an explanation for the deviation from administration, including any allocation methodology used. This listing is intended to assist auditors in testing for miscoding of administrative expenditures. If a similar schedule already exists, this may be expanded to include any additional needed information.

Pursuant to *N.J.A.C.* 6A:23A-1.1, administrative expenditures are defined by the department’s Comparative Spending Guide and include general administration (function 230), school administration (function 240), and central services (function 25X/290). The coding of costs within those functions follows NJ statute (*N.J.S.A.* 18A:4-14) which requires all districts to follow NJ’s classification system (minimum chart of accounts or NJCOA) and other reporting directives and guidelines (e.g. appendix F in the annual budget guidelines) which must be consistent with GAAP and NCES reporting requirements. Additional coding requirements were included in the Commissioner regulations (*N.J.A.C.* 6A:23A) implementing Chapter 73; these regulations were adopted in December 2004 and are available at the web site <http://www.nj.gov/njded/code/current/title6a/chap23a.pdf>.

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

- Administrative staff (positions that require an administrator certificate and their staff support), should be recorded in administration (function 230, 240, 25X/290), with the exception of positions that require a supervisory certificate. Per NCES and NJCOA, the positions of “supervisors of instruction” (which require a supervisory certificate) may be recorded in function 221, “Improvement of Instruction” as detailed in the below bullet, and are therefore, not considered administration.
- School level staff with the responsibility of supervising operations, evaluating/monitoring school staff, and coordinating school level activities are considered school administration (function 240). This includes the activities performed by the principal, assistant/vice principals, head teacher acting as a principal, director and other assistants performing these activities. An exception is the performance of monitoring and evaluation of staff as part of a supervisor of instruction function and if so, the full salary of the supervisor of instruction can be accounted for in function 221. However, if the majority of the supervisor of instruction position is performing administrative duties such as monitoring, supervising and evaluation, hiring, and budget preparation, then all or that majority portion of the position should be

recorded in school administration. Per NCEC and NJCOA, evaluation and monitoring of staff is considered school administration unless performed by a supervisor of instruction, and cannot be allocated to improvement of instruction.

- Administrative staff time dedicated to direct instruction as part of the regular curriculum (i.e. teaching classes on a day to day basis) may be allocated to the applicable direct instruction function with the appropriate supporting documentation (e.g. schedules and class rosters). The one exception is a principal's salary which cannot be allocated to direct instruction unless the district obtained specific County Superintendent approval since NJ regulations (NJAC 6:3-1.6(c)) require every school to have a full time non-teaching principal unless approved by the County Superintendent.
- Superintendents, Business Administrators, and Principals/Vice Principals should not be allocated to support functions. Other administrative positions are deemed to be administration unless it can be demonstrated that the position is clearly dedicated to a specific service area; appropriate documentation should be available to support an allocation, such as case load information for allocation to guidance/counseling, function 218, "other support services – regular."
- Full time department chairpersons should be recorded in school administration and any stipends received by teachers to perform chairperson duties part time should also be recorded in school administration. Department directors are considered school administration and per NJCOA, directors for special education/student services, guidance and athletics should be recorded in school administration.
- Work of staff that supports administration should be recorded in administration. In accordance with NCEC and NJCOA, this includes all central office, school office, business and administrative technology non-certificated staff, as well as clerical staff that support teaching duties.

This table provides general guidance for classification of administrative certificated staff.

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

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

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

Reclassification of Miscoding

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

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

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

N.J.A.C. 6A:23-2.11 Overexpenditure of Funds

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

N.J.S.A. 18A:22-44.2 provides that districts are to record the last state aid payment of the 2004-05 school budget year as revenue for budget purposes only in the 2004-05 accounting records. For 2005-06, budgetary revenue includes the last state aid payment of the 2005-06 school year budget (received July 2006) as revenue for budget purposes only in the 2005-06 accounting records. Any negative unreserved undesignated fund balance which is a direct result of a State school aid payment for the current budget year not paid until the following budget year shall not be considered a violation of any law and does not need corrective action. (See section III for example of note disclosures).

SECTION I – GENERAL COMPLIANCE
CHAPTER 7

RESERVED

THIS PAGE INTENTIONALLY LEFT BLANK

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Closing Out for GAAP

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

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

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

Last state aid payment

Pursuant to *N.J.S.A. 18A:22-44.2* districts are to record the last state aid payment of the 2004-05 budget year as revenue for budget purposes only in the 2004-05 accounting records. For 2005-06, budgeted state aid revenue should also include the last state aid payment of 2005-06 that was not received until July 2006.

For year end conversion to the GAAP modified accrual statements, the district will need to make an adjustment equal to the amount of revenue for each state aid category (both general fund and special revenue fund) included in the last state aid payment. The adjustment to GAAP would be to record the prior year last state aid payment (2004-05) and to eliminate the current year (2005-06) last state aid payment that was recorded for budget purposes. This adjustment will eliminate the budgetary only recognition of 2005-06 state aid revenue and the Intergovernmental Receivable – State. The expenditures which have been deducted from the gross revenue when the State calculates the net cash payments are neither reversed nor accrued since these have been paid in full by the state as of each June 30. (See end of section I-8 for example).

Auditor's Note – Auditors should review *The Abbott Addendum* for items that specifically relate to Abbott districts.

General Procedures for All Funds (Other than Special Revenue)

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

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

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

The first step is to identify those purchase orders for which the goods/services have been received/rendered yet payment has not been made prior to year-end. These items must be charged as an expenditure against the current year budget and established as an accounts payable at June 30. The accounts payable is recorded at the invoice amount. If the invoice has not been received the amount must be estimated. When payment is made in the subsequent year, the accounts payable account will be charged rather than the expenditure account. The next step is to review any remaining purchase orders to identify those orders which will be honored the following year (i.e.- the goods/services are still necessary) and which will be canceled (i.e.- the goods/services are no longer necessary). As a general rule, for other than construction contracts, the liquidation of these orders should be within 60 to 90 days of year-end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled. No entries are necessary to carry open purchase orders as encumbrances in the current fiscal year. The entries to adjust the subsequent year's budget will be made in that year. The district should have ready for the auditor a listing of each type of order - 1) those that represent accounts payable and 2) those that represent orders that will be honored in the following year. Auditors are urged to perform a thorough review and analysis of open purchase orders in conformity with the Year-End Encumbrance Hotline issued September 16, 2003. The Hotline is included at the end of this section.

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

Districts are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues whose collection amounts are known. Districts may also have established accounts receivable balances in the prior year for items that should have been collected by June 30. At year-end entries must be made to accrue revenues and establish receivables for any revenues that have been earned but are uncollected as of June 30 in order to bring the accounting records into accordance with GAAP. Examples would be uncollected contracted tuition amounts and interest earned on investments. Adjustments for prior year's tentative tuition charges for regular pupils made because of a difference in actual per pupil cost may only be made during the third school year following the contract year. No accrual is made for such adjustments. The payments of adjustments for special education pupils are made in accordance with the terms of the original contract. Districts must also determine the collectability of any uncollected accounts receivable balances as of June 30.

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

For budgetary purposes only, the last state aid payment of school fiscal year 2005-06 will be included in the revenue of 2005-06, pursuant to *N.J.S.A 18A:22-44.2*. For year end conversion to the GAAP modified accrual statements, the district will need to make an adjustment for each state aid categories of the general fund and special revenue fund included in the last state aid payment. The adjustment eliminates the Intergovernmental Receivable – State. Districts should have available the final state aid payment schedule (CEIFAPAY) as support for the adjustment of the applicable revenue. The expenditures that have been deducted from the gross revenue when the State calculates the net cash payments are not reversed since these have been paid in full as of June 30 by the State. In addition, for the GAAP basis financial statements, districts should recognize the last state aid payment for fiscal year 2004-05, made in July 2005, which was recorded in 2004-05 as revenue for budgetary purposes but not for GAAP statements. This is to enable the districts to be consistent with the State reporting under GASB 33.

3) Analyze Balance Sheet Account Balances:

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

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

Included in the Board Secretary’s audit checklist of documents to have available for the audit, Chapter III-6 of this *Audit Program*, is a schedule of capital assets to support the amount reported on the line “Capital Assets, net” (cost of the assets less accumulated depreciation) in the governmental funds and the business like activities columns of the *Statement of Net Assets* (Exhibit A-1). Similarly, the district staff is required to maintain a schedule of long-term debt as described in paragraph 81 of GASB 34. The schedule of long-term debt supports the balance presented for the current and noncurrent portions of long-term debt on the *Statement of Net Assets* (Exhibit A-1).

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



State of New Jersey

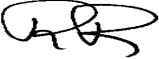
DEPARTMENT OF EDUCATION
PO Box 500
TRENTON, NJ 08625-0500

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, 200X through a thorough review and analysis of open purchase orders.

Open purchase orders at June 30, 200X 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, 200X. Blanket purchase orders do not constitute valid purchase

Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants
Page 2
September 16, 2003

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, 200X 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 2002-03 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.

RR\BB\Y:\Audit Program\2002-03 Audit Program\Purchase Orders.doc

c: Gordon MacInnes
Albert A. Monillas
J. Michael Rush
Judith Weiss
Glenn Forney
Beth Brooks
County Superintendents
County School Business Administrators

Standard Adjusting EntriesTo Establish Accounts Payable:

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

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

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

To Cancel Purchase Orders:

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

To Accrue Revenues:

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

Closing Entries

Closing Budgetary Accounts

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

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

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

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
101 Cash in Bank	\$117,000	
106 Cash Equivalents	1,134,576	
111 Investments	570,600	
114 Interest Receivable on Investments	25,400	
142 Intergovernmental A/R - Federal	65,000	
301 Estimated Revenues	49,929,100	
302 Revenues		\$49,911,100

303	Budgeted Fund Balance	568,300	
421	Accounts Payable		60,000
601	Appropriations		50,497,400
602	Expenditures	49,893,100	
603	Encumbrances	65,000	
753	Reserve for Encumbrances - Current Year		65,000
770	Unreserved Fund Balance		1,834,576

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

	<u>DEBIT</u>	<u>CREDIT</u>
Dr. Unreserved Fund Balance (XX-770)	586,300	
Dr. Revenues (XX-302)	49,911,100	
Cr. Estimated Revenues (XX-301)		49,929,100
Cr. Budgeted Fund Balance (XX-303)		568,300
(With the appropriate entries being made in the revenue subsidiary ledger.)		

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

Dr. Appropriations (XX-601)	50,497,400	
Cr. Expenditures (XX-602)		49,893,100
Cr. Encumbrances (XX-603)		65,000
Cr. Unreserved Fund Balance (XX-770)		539,300
(With the appropriate entries being made in the expenditure subsidiary ledger.)		

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

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

Other Issues/Entries

Internal Accounting Records

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

Capital Assets and Long Term-Debt (LTD)

Under GASB 34, the general fixed assets account group and the general long-term debt account group are not reported in that format. Districts should refer to the *Codification of Governmental Accounting and Financial Reporting Standards* as of June 30, 2005 (GASB Codification), Section 1400 (Reporting Capital Assets), Section 1500 (Reporting Liabilities) and Section C60 (Compensated Absences) for further guidance. The following is a brief overview and is not intended to address the conversion at the end of the year:

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

Opening Balances

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

Dr. Encumbrances (XX-603)
Cr. Appropriations (XX-601)

Dr. Reserve for Encumbrances - Current Year (XX-753)
Cr. Reserve for Encumbrances - Prior Year (XX-754)
(With the appropriate entries being made in the expenditure subsidiary ledger.)

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

Reference Materials

The below listed pages in the *Technical Systems Manual* should be referenced for specific examples of adjusting and closing entries in the various funds. As previously noted, the closing entries for the general fund as shown in the *Technical Systems Manual* on page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The sample entries on pages I-8.6 and I-8.7 of this Audit Program reflect the revised entries.

General Fund	pp. 5.14 to 5.16, 5.18, 5.20 to 5.21, 5.23 to 5.24
Special Revenue Fund	pp. 9.12 to 9.13
Capital Projects Fund	pp. 11.8 to 11.10
Debt Service Fund	p. 10.3
Enterprise / Internal Service Fund	pp. 14.12 and 14.15
Trust and Agency Funds	pp. 15.2 to 15.4, 15.7 and 15.10

Special Revenue Fund

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

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

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

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

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

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

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

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

When analyzing balance sheet accounts in the special revenue fund it should be noted that for budgetary basis there is no fund balance in the special revenue fund. Any excess of cash received over expenditures

is either deferred revenue or due to grantor. Adjustments should have been made to the certified budget to spend the July 1 deferred revenue and the deferred revenue subsequently recognized as revenue during the year. An example of the journal entries necessary to budget and recognize the deferred revenue is provided in Chapter 9 of the *Technical Systems Manual* and should be carefully reviewed.

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

Special Revenue Fund Adjusting Entries

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

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

- If carryover is allowed:
 Dr. Revenue (20-302)
 Cr. Deferred Revenue (20-481)

- If carryover is not allowed:
 Dr. Revenue (20-302)
 Cr. Intergovernmental Accounts Payable (20-41X)

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

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

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

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

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

Dr. Expenditures (20-602)
 Cr. Encumbrances (20-603)

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

Special Revenue Fund Closing Entries

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

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

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

Special Revenue Fund - Other Issues/Entries

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

Opening Balances

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

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

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

Grant Year

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

All Funds

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

Deferral of Current Fiscal Year Last State Aid Payment for GAAP Reporting:

Under GAAP financial reporting, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the last state aid payment is not considered revenue to the school district if the State has not recorded the corresponding expenditure. For intergovernmental transactions, GASB 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the last state aid payment for 2005-06 in the subsequent fiscal year, school districts cannot recognize the last state aid payment on the GAAP financial statements until the subsequent fiscal year. In addition, since the State recorded the last state aid payment for 2004-05 in 2005-06, school districts should recognize the 2004-05 last state aid payment in the 2005-06 GAAP financial statements.

Existing state and federal regulations may conflict with GAAP reporting. If a conflict exists between GAAP and any legal/contractual requirement, *N.J.A.C. 6A:23-2.4* requires every district board of education to develop budgets and maintain an accounting system on the legal/contractual basis, such that sufficient records exist to enable reporting in conformity with GAAP at year end.

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

An example of the reconciliation process for the deferral of the 2005-06 last state aid payment in both the general and special revenue funds is provided here as guidance. (See Section III – Chapter 3 for sample disclosures and reconciliations.) Districts must use the final state aid print out entitled “CEIFAPAY” to determine the cash amount of the last state aid payment. Note that state aid which is not included on “CEIFAPAY” (e.g., nonpublic school aid, grants) is not included in the last state aid payment. The cash payment schedule to the school district for state aid may be different from the revenue due to certain adjustments deducted from the receivable for those expenditures that the state pays on behalf of the district, such as tuition to Katzenbach.

Assume that a district is entitled to the following revenues:

Core Curr. Standards Aid	\$208,065,785
Supplemental CCS Aid	37,475,295
Transportation Aid	3,624,557
Special Education Aid	19,778,459
Bilingual Education Aid	2,936,604
Consolidated Aid	809,780
Total General Fund	<u>272,690,480</u>
Early Childhood Prog. Aid	26,321,860
Demonstrably Effective Program Aid	<u>14,951,498</u>
Total Special Revenue Fd	<u>41,273,358</u>
Total State Aid	\$313,963,838

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

Day Training Tuition	\$869,679
State Facility Tuition	<u>4,537,328</u>
Total Deductions	\$5,407,007

Based on the revenue and deductions, cash payments to the district for the year would equal \$308,556,831. The first 19 payments are each \$15,427,842 and the last state aid payment is \$15,427,833. The following allocation method should be used to convert the budgetary schedules to the GAAP statements:

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

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

Below is an example of the proration method:

State Aid	Revenue	% of Revenue	Adjustment Applied to Each State Aid
Core Curr. Standards Aid	208,065,785	76.30	10,196,858
Supplemental CCS Aid	37,475,295	13.74	1,836,236
Transportation Aid	3,624,557	1.33	177,743
Special Education Aid	19,778,459	7.25	968,902
Bilingual Education Aid	2,936,604	1.08	144,333
Consolidated Aid	809,780	0.30	40,093
Total GF [A]	272,690,480	100 %	13,364,165
Early Childhood Prog. Aid	26,321,860	63.77	1,316,001
Demonstrably Effective Program Aid	14,951,498	36.23	747,667
Total SRF [B]	41,273,358	100 %	2,063,668
Total State Aid	\$313,963,838		15,427,833

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

		Debit	Credit
General Fund			
10-302	Revenue	13,364,165	
10-141	Intergov. A/R-State		13,364,165
	(To adjust to GAAP basis revenue for last state aid payment)		
10-3111	Core Curr. Standards Aid		10,196,858

10-3112	Supplemental CCS Aid		1,836,236
10-3120	Transportation Aid		177,743
10-3130	Special Education Aid		968,902
10-3140	Bilingual Education Aid		144,333
10-3195	Consolidated Aid		40,093
	(Optional posting to revenue ledger, if needed)		
Special Revenue Fund			
20-302	Revenue	2,063,668	
20-141	Intergov. A/R-State		2,063,668
	(To adjust to GAAP basis revenue for last state aid payment)		
20-3211	Early Childhood Prog. Aid		1,316,001
20-3212	Demonstrably Effective Program Aid		747,667
	(Optional posting to revenue ledger, if needed)		

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

GASB 34 CAFR			
Exhibit	Statement Title	Impact of Last State Aid Payment	
A-1	Statement of Net Assets	Reduced net assets; possible deficit in governmental activities equal to the last state aid payment	
A-2	Statement of Activities	Reduction in state aid revenue	
B-1	Balance Sheet/Governmental Funds	Reduced fund balance; possible deficit in both general fund & special revenue fund equal to the last state aid payment	
B-2	Statement of Revenues, Expenditures and Changes in Fund Balances -Governmental Funds	Reduction in state aid revenue – general and special revenue funds	
C-1	Budgetary Comparison Schedule – General Fund	Include line “Last State Aid Payment not Recognized on GAAP Basis” in the Recapitulation section at the end of the schedule – see example below	
C-3	Budget to GAAP Reconciliation or Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	Include reconciling items due to last state aid payment revenue recognition policy for general and special revenue funds	

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