

**FINANCIAL ACCOUNTING  
FOR  
NEW JERSEY SCHOOL DISTRICTS**

**THE AUDIT PROGRAM**

**2006-07**

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

**Lucille E. Davy, Commissioner  
State Board of Education**

**Katherine P. Attwood  
Assistant Commissioner  
Division of Finance**

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Secretary, State Board of Education

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## SIGNIFICANT CHANGES FOR 2006-07

### NEW LEGISLATION

Updates to *The Audit Program* consist mainly of changes and/or practices resulting from new legislation, including suggested audit procedures for employee compensation reporting and a change to the audited excess surplus calculation.

Several laws enacted in March and April 2007 have or will have an impact on school district finances and operations. The following overview is not intended to be all inclusive, but to provide a brief summary of the main provisions that reflect the update of the audit program for additional suggested audit procedures for 2006-07. State regulations are currently being developed on the implementation of the new laws. *The Audit Program* will be updated in subsequent years for suggested audit procedures and/or guidance as deemed necessary. The 2007 chapter laws, as noted below, are available through the link for “Laws and Constitution” on the NJ Legislative website: <http://www.njleg.state.nj.us/>.

P.L. 2007, c. 53 (A5) – known as School District Accountability

P.L. 2007, c. 62 (A1) – known as Tax Levy CAP

P.L. 2007, c. 63 (A4) – known as CORE

#### **P.L. 2007, c. 53 (A5)**

Approved by the Governor on March 15, 2007, this law provides for various school district accountability measures and is effective immediately. *The Audit Program* includes suggested audit procedures for auditors to use when testing that compensation reporting is in compliance with applicable state and federal laws.

Section 9 requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies with federal and State laws and regulation regarding the compensation reported. As noted in Section II-10 of this document, auditors should assess the risk of noncompliance regarding compensation reporting and develop appropriate audit procedures. Documentation regarding this assessment and audit procedures should be included in the audit workpapers. Such procedures may include, but are not limited to, inquiry of knowledgeable personnel regarding fringe benefits, review of contracts and board of education minutes for authorization of special payments and bonuses, comparison of administrators’ contractual salaries and benefits with actual payroll, evaluating year end payroll tax reports such as the W-2 forms for inclusion of taxable benefits, review of BOE policy regarding personnel use of district owned or leased vehicles or cell phones. Payments at retirement or separation should be analyzed.

Section 8 requires the school business administrator, or any other person designated by the board of education, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. The Department is working with the Department of Treasury for determination of the process of certification. It is our understanding that this will be a calendar year-end activity first effective December 31, 2007, but final determination and guidance will be provided by Treasury in consultation with the Department.

Section 16 expanded the conditions for appointment of a state monitor or forensic audit. Additional auditor questions relating to audit opinion and material weaknesses have been added to AUDSUM to address these new conditions.

**P.L. 2007, c. 62 (A1)**

This law was signed by the Governor on April 3, 2007 and establishes a 4% cap on tax levy increases, changes the accounting/transfers for and expands the number of permitted fund balance reserves. It is effective immediately except sections 2 through 12 are effective for district budget years 2007-08 through 2011-12.

Section 6 provides for two reserves of fund balance. One is for a current expense emergency reserve account and the other is for a debt service reserve account. This section also expanded the authority at year end to transfer funds into a new or existing maintenance or capital reserve account. Due to the effective date of Section 6, the new reserves and new transfer authority would not be effective until July 1, 2007 and therefore has no impact on the June 30, 2007 year end.

Section 8 amends *N.J.S.A. 18A:7F-7* to increase the excess surplus limitation to \$250,000 or 2% of the budgeted general fund for the prebudget year, whichever is greater. To be consistent with the use of surplus in the 2007-08 budget, the calculation of audited excess surplus at June 30, 2007 will use the new \$250,000 limitation.

**P.L. 2007, c. 63 (A4)**

This law implements CORE proposals and was signed on April 3, 2007 and is effective immediately. The primary focus of this law is to establish uniform shared services and consolidation through the use of new “Executive County Superintendents”.

In an April 27, 2007 letter to chief school administrators, the Commissioner noted that since the appointments of the new Executive County Superintendents will not be in place before July 1, 2007, contracts for the employment of superintendents of schools, assistant superintendents of schools and school business administrators are not subject to the provisions of P.L. 2007, c.63 requiring review and approval of such contracts until such appointments become effective.

**OTHER REPORTING CHANGES**

- School districts are now permitted to include students eligible for reduced price meals as low-income students as of October 13, 2006 when preparing the ASSA. Districts will include students eligible for reduced price lunches as well as those eligible for free meals and free milk on the ASSA as low-income.
- The NJ State Department of Education requests that prior year repeat audit findings be cross referenced to the related current year finding number. This information is requested so the nature of repeat audit findings can be evaluated.

## OTHER CHANGES / UPDATES FOR 2006-07

The following is a summary of changes / updates:

1. General changes are found throughout the document and include updates for:
  - Update of code references related to revision of Business and Financial Services Code effective September 8, 2006.
  - References to *Government Auditing Standards* (Yellow Book) include the 2007 Revision where applicable

### Section II-60

- Child Nutrition memo titles and dates

### Section II-SA

- Federal CFDA and State aid numbers
- School lunch rates

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

### Introduction

- Title of Single Audit report revised to reflect AICPA changes

### Section I-1

- Government Accountability Office (GAO) issued revised Government Auditing Standards (Yellow Book) and advised auditors to implement early the 2007 Yellow Book section defining new terminology “significant deficiency” in internal controls and deleting “reportable conditions” to be consistent with AICPA Statements on Auditing Standards (SAS) 112.
- SAS 112 is effective for audits of June 30, 2007 CAFRs- changes terminology of internal control weaknesses.
- Noted additional new AICPA Statements on Auditing Standards.

### Section I-3

- ASSA district workpapers for October 13, 2006 were updated for reporting new ASSA data such as reduced meal eligibility, free and reduced meals and free milk data for preschool, Extended School Year Intensive Services in addition to Tier IV reporting and Speech Only Services for students with a SP classification. This is additional information collected in the ASSA but does not change the format of the Schedule of Audited Enrollments.
- District testing for bilingual eligibility includes new tests, “Assessing Comprehension and Communication in English State to State for English Language learners (ACCESS for ELLS™) and “WIDA ACCESS for ELLs Placement Test” (W-APT).
- Updated terminology on the Special Education Medicaid Initiative (SEMI) to reflect the current manual, NJDOE website with manual and information on SEMI, and new contact number.
- Deleted June 2003 letter on SEMI.
- Clarification of DRTRS and testing for nonpublic transportation.

### Section I-5

- P.L. 2006, c.96 (Prompt Payment Law) and website for further information.
- P.L. 2007, c. 4 (No-Bid Monday Law) and website for further information.

Section I-6

- Deleted references to ERIP website and Q and A.

Section II-10

- Included guidance on auditor testing of compensation reporting as part of annual audit.
- Revised the excess surplus calculation to reflect the minimum fund balance of \$250,000 established by P.L. 2007, c.62
- The capital reserve code was incorporated into Finance and Business Services Code *N.J.A.C. 6A:23-2.13*.
- Deleted requirement that capital reserve account balance be adjusted annually in the Quality Assurance Annual Report (QAAR) due to a change in regulations.
- Deleted references to 3% excess surplus calculation for county vocational districts with SGLAs (SGLAs were no longer applicable for 2007-08 budgets of county vocational districts.)

Section II-20

- Added website for downloadable TPAF reporting form.

Section II-30

- References to capital reserve code changed to *N.J.A.C. 6A:23-2.13*.
- Changed text of schedule exhibit #s to correspond with website sample schedules.

Section II-60

- Revisions to Household Application for Free and Reduced Price Meals and/or Milk
- Edit check worksheet(s) are optional for the breakfast program; remain mandatory for all lunch reimbursement claims.
- Added column on Schedule of Meal County Activity to split out meals claimed from meals tested.
- Clarification of meals verified/overclaim calculation.

Section II-SA

- Summary of Auditor's Results and Schedule of Findings and Questioned Costs terminology changed from "reportable conditions" to "significant deficiencies".

Section III-2

- AICPA draft only of revised auditor reports are available at time of publication of this *Audit Program*. Auditors should check AICPA website for final version prior to issuing reports.
- Draft auditor report language changes from reportable conditions to significant deficiencies in accordance with Statement on Auditing Standards (SAS) No. 112.

Section III-4

- Schedule of Meal Count Activity has additional column to break out meals claimed from meals tested.
- Excess surplus calculation minimum balance is \$250,000.
- References to the Excess Surplus Calculation (3%) for county vocational districts receiving a Commissioner SGLA and the illustrative calculation for the 3% are deleted.
- Prior Year Findings that are repeated in the current year should be cross-referenced in the Auditor's Management Report using the current year number (2007-X).

Section III-5

- Audsum questions related to determination of conditions for appointment of State monitor or forensic audit.

Section III-6

- Documentation that district should have available for audit must include:
  - Schedule of fringe benefits and post retirement payments by employee, type of benefit and dollar amount/value; authorization for non-contractual fringe benefits.
  - Payroll tax reports, quarterly and calendar year end, including W-2s, for federal and state.
  - Forms 1099 and transmittal form.
  - Additional documents for Abbott districts, including Two Year Reports on Instructional Priorities, budget approval/award letter and related spreadsheets (if requesting additional EOA), documentation related to any sale of property, support for out of state travel expenditures, EOA state aid printout.
  - Food Service fund documentation should include new NJ Department of Agriculture certifications for local biosecurity plan (Form #363) and local wellness/nutrition policy (Form #364).
- Questionnaire for Abbott districts includes Position Control Roster related questions.

Section III-8

- Revised terminology to replace “reportable condition” with “significant deficiency”

## OVERVIEW

*Financial Accounting for New Jersey School Districts (The Audit Program)* is updated annually and includes instructions for both district personnel and public school accountants regarding preparing for and performing the annual audit. The full text of *The Audit Program* is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

The *Comprehensive Annual Financial Report* (CAFR) is the basis for the annual audit. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23-2*) require school districts to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

### Reference Materials

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

### Responsibility/Government Auditing Standards

*N.J.A.C. 6A:23-2.2* (i) requires the issuance of a CAFR by every school district, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's management and are its representation of the financial position at a given point in time and the operations of the district during a period of time.

The federal Single Audit Act requires that organizations that expend \$500,000 or more in federal financial assistance have an audit conducted in accordance with guidance provided in the Office of Management and Budget Circular A-133. NJ Circular Letter 04-04-OMB requires that New Jersey school districts that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy. *Government Auditing Standards*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS).

The U.S. Government Accountability Office (GAO) revised the auditor independence requirements in the *Government Auditing Standards* 2003 Revision. The most significant change relates to the rules associated with nonaudit and consulting services performed by those who also plan, conduct and review audit work. "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence."(Section 3.03) The department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements.

The GAO issued a 2007 revision of *the Government Auditing Standards*, effective for audits of periods beginning on or after January 1, 2008. Earlier implementation is encouraged. Chapter 5 of the Yellow Book revised terminology for reporting internal control deficiencies to be consistent with the AICPA Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit* which is effective for June 30, 2007 district audits. Since the AICPA standard has an earlier effective date, the GAO has indicated that auditors should follow SAS 112 when reporting on internal control deficiencies. The 2007 Revision is available electronically through the web site [www.gao.gov](http://www.gao.gov). Included on the GAO web site is a summary of major changes since the issuance of the 2003 version.

### **Submission/Reporting Package**

The Department of Education requires the submission of the reports described below on or before the statutory deadline. For 2006-2007 audits, the statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of 2006-2007 audits is Monday, November 5, 2007. The Commissioner has statutory authority (*N.J.S.A.* 18A:23-6) to appoint auditors for districts failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date.

#### **1. The CAFR**

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

Auditor's Note – Auditors should review the *Abbott Addendum to the Audit Program (The Abbott Addendum)* for items that specifically relate to Abbott districts. The Abbott Addendum is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

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

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

#### **3. Audit Summary Worksheet**

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and given to the district board secretary/business administrator. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. The

board secretary/business administrator is responsible for the transmission of the Audsum data via the DOENET to the Department of Education by the same due date as the CAFR. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board for conformance with GAAP. The AMR is the auditor's report to the board of education of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the district is required.

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

## OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

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

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

Districts should reference the NJ Department of Education (NJDOE) website at [www.state.nj.us/njded/finance/fp](http://www.state.nj.us/njded/finance/fp) (click on CAFR) for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by district staff. Information on Management Discussion and Analysis (MD&A) requirements and other topics related to GASB Statement No. 34 financial reporting are also available at that web site to assist auditors and district staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

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

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

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

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

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

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

Schedules (D series in the Outline) should only be included for Abbott districts. Indicate by “N/A” when a schedule is not applicable.

**Statistical Section** – This section is intended to provide CAFR users with a broader and complete understanding of the school district and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules, a crosswalk from the pre-GASB 44 schedules, and guidance for preparing the schedules can be found on the NJDOE web site [www.state.nj.us/njded/finance/fp](http://www.state.nj.us/njded/finance/fp) (click on CAFR) and the Outline of the CAFR has been changed to reflect these revisions. Statistical information to assist districts and auditors in preparing this section is posted on that web site (click on Audit Information, and 2006-07 Audit Program).

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

**OUTLINE OF CAFR**

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