

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS**

THE AUDIT PROGRAM

2008-09

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF FINANCE
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SIGNIFICANT CHANGES FOR 2008-09

DEFERRAL OF JUNE STATE AID PAYMENTS

Beginning in 2002-03, the June 22 state aid payment for the fiscal year end has been delayed until the following school budget year. This payment is recorded for budget purposes in the current school budget year. Generally Accepted Accounting Principals (GAAP) revenue recognition requires that the deferred payment be recognized in the subsequent year. A year end reconciliation of the budgetary comparison schedules to the GAAP statements for both the General and Special Revenue funds is required.

Effective for the 2008-09 fiscal year, the Governor announced that due to the extreme economic hardship facing the State, the June 8, 2009 State aid payment to school districts will be delayed until the next fiscal year. At June 30, 2009, districts still record both June payments (June 8 and June 22) as revenue in their budgetary schedules in the current 2008-09 school year but for the GAAP statements, these payments will be recognized and reported as revenue in the subsequent fiscal year. The reconciliation from the budgetary comparison schedules to the GAAP statements will now include the two deferred June payments. Auditors should refer to the section on recording the last state aid payments in Section II-10 of this *Audit Program*.

N.J.S.A. 18A:22-44.2 provides school district boards of education the ability to enter into short term loans with the bank of their choice, if needed, due to the delay in the June State school aid payments. All borrowing required department approval granted by the Executive County Superintendent (ESC) upon written application and demonstration of need by the board of education.

The letter from the department notifying districts of the delay of the June 8 payment and information on the borrowing process is available on the NJDOE website: <http://www.nj.gov/education/finance/fp/af/borrow/051509memo.doc>.

FISCAL ACCOUNTABILITY, EFFICIENCY AND BUDGETING REGULATIONS

During fiscal year 2008-09, the Commissioner of Education promulgated the Financial Accountability, Efficiency and Budgeting emergency regulations at *N.J.A.C. 6A:23A* (chapters 1-15) in two phases. These regulations are necessary as the result of the passage of the School Funding Reform Act, P.L. 2007, c.260 and several fiscal accountability laws including P.L. 2007, c.53, which established school efficiency requirements, including travel restrictions; P.L. 2007, c.62, which established the tax levy cap law; and P.L. 2007, c.63, which established the position and expanded responsibilities of the Executive County Superintendent positions.

Phase I includes subchapters 1, 3, 5, 6, and 9 and was effective July 1, 2008. Phase II includes subchapters 2, 4, 7, 8, and 10-15 and was adopted December 18, 2008. These emergency regulations are effective through June 30, 2009, with an additional 180 day extension. As part of the December adoption, amendments were made to *N.J.A.C. 6A:23A-1.1, 1.2, 3.1, 5.2, 5.7, 5.8, 5.9, 6.1, 6.2, 6.9, 6.10, 9.1, 9.2, and 9.3*. Auditors should follow the December rules for those subchapters.

The subchapters effective July 1, 2008 include rules to assure the financial accountability of local public school districts. These rules include the requirements that districts must meet in order to receive State aid and clarify maximum participation in the SEMI program. *N.J.A.C. 6A:23A-5.8* as amended prohibits districts from using public funds for costs related to employee honors and

recognition events which include a reception or dinner. Districts may use public funds to support the reasonable cost of non-monetary employee recognition awards (e.g. teacher of the year awards). The use of public funds for reasonable costs of employee awards is a local discretionary expenditure.

The July 1, 2008 regulations also require boards of education to establish policies concerning costs of public relations and professional services, nepotism, pay-to-play, and travel. The Checklist for Annual Audit (documents the district should have available for the audit) and the Auditor's Questionnaire have been updated in Section III-6 of this *Audit Program* to include the required policies. Auditors should review the district's records to determine whether the following policies were adopted by the board prior to June 30, 2009.

- Public Relations and Professional Services Policy (*N.J.A.C.* 6A:23A-5.2)
- Policy on SEMI reimbursement (*N.J.A.C.* 6A:23A-5.3(e)1)
- Nepotism Policy (*N.J.A.C.* 6A:23A-6.2)
- Contributions and Contracts Awards Policy (*N.J.A.C.* 6A:23A-6.3)
- Policy on Exceeding Purchase Order Amounts (*N.J.A.C.* 6A:23A-6.10)
- Vehicle Tracking and Use Policy (*N.J.A.C.* 6A:23A-6.11)

District boards of education and administration are responsible for developing internal controls policies and procedures and maintaining a strong internal control environment. *N.J.A.C.* 6A:23A-6.4 requires that the district's internal control policies include specific requirements at *N.J.A.C.* 6A:23A-6.5 through 6.13. Not all sections were required to be implemented as of June 30, 2009. The following table indicates the specific internal controls that, at a minimum, should be in place by June 30, 2009.

<i>N.J.A.C.</i>	Description
6A:23A-6.5	Segregation of duties; organization structure
6A:23A-6.10	Approval of amounts paid in excess of approved purchase orders; board policy (as amended in December 2008)
6A:23A-6.11	Vehicle tracking, maintenance and accounting
6A:23A-6.12	District vehicle assignment and use policy
6A:23A-6.13	Board travel policy (Must comply with <i>N.J.A.C.</i> 6A:23A-7.1 et seq. by June 30, 2009)

The following table includes the specific internal controls that are required to be in place during 2009-10.

<i>N.J.A.C.</i>	Description	Implementation Date
6A:23A-6.6	Standard Operating procedures for business functions	December 31, 2009 (proposed regulations)
6A:23A-6.7	Financial and human resource management systems (larger districts); access controls	2010-2011
6A:23A-6.8	Personnel tracking and accounting (Position control roster)	December 31, 2009 (proposed regulations)
6A:23A-6.9	Facilities maintenance and repair scheduling and accounting	By July 1, 2010 (December amendment)

The primary impact of the December 18, 2008 regulations on audits for June 30, 2009 is the adoption of the travel regulations in subchapter 7. This subchapter clarifies the travel requirements under *N.J.S.A.* 18A:11-12, which pertain to travel expenditures for district employees and board members. The definition of “regular business travel” includes in-state professional development events with a registration fee that does not exceed \$150 per event. The final regulations allow the use of a travel agent and clarify the requirement to use the internet, “if possible”. The sponsoring organization of an in-state conference may apply to the Commissioner for a waiver to permit district reimbursement for overnight travel. The list of Commissioner approved conferences for the 2008-09 year is available at this website <http://www.state.nj.us/education/genfo/travel/>. The *State Aid/Grants Compliance Supplement* has included suggested audit procedures for travel expenditures since June 30, 2006 as a result of the 2006 Appropriations Act and subsequent legislation. An additional procedure has been added to determine whether expenditures for in-state conference travel expenditures are for a conference granted a waiver by the department.

N.J.A.C. 6A:23A-5.9, as amended, requires the Executive County Superintendent’s (ESC) approval only if a travel event exceeds \$5,000 or is “out-of-state” and the district is sending more than five employees/board members. The regulation does not require ESC approval for in-state travel, regardless of the number of attendees, unless the total cost of the event exceeds \$5,000. All events out of the country, regardless of cost or number of attendees, require prior ECS approval. Sample findings have been included in Section III-7 to report noncompliance with the travel regulations.

The proposed accountability regulations under *N.J.A.C.* 6A:23A will include the recodification with amendments of *N.J.A.C.* 6A:23 into subchapters 16-22 and the readoption with amendments of the emergency rulemaking, subchapters 1 thru 15. The emergency regulations effective thru June 30, 2009, with a 180 day extension and the proposed accountability regulations are posted on the department website at <http://www.state.nj.us/education/code/current/title6a/chap23a.htm>.

SCHOOL FUNDING REFORM ACT OF 2008

General

Pursuant to the School Funding Reform Act of 2008 (SFRA), which became effective for the 2008-09 school fiscal year, state aid categories have been revised to reflect provisions of SFRA and can be found in Section II-SA of this *Audit Program*. SFRA provides for one restricted state aid category, Preschool Education Aid, which must be accounted for and reported in the special revenue fund. Carryover of unexpended preschool education aid is permitted. A detailed schedule must be prepared in the CAFR to capture appropriations and carryover. See Section II-20 for details.

The chart of accounts has been updated to reflect certain at-risk expenditures funded through SFRA. Although not effective until July 1, 2009, districts had the option to implement early. The sample Comprehensive Annual Financial Report (CAFR), posted at <http://www.nj.gov/education/finance/fp/cafr/>, has been updated to reflect the chart of account changes and new state aid categories under SFRA.

ASSA

The Application for State School Aid (ASSA) was revised to reflect the new SFRA formulas. The schedule of audited enrollments required to be submitted by the auditor as part of the test work when auditing ASSA has lines for special education elementary, middle, and high school.

Special education tiers are no longer applicable. Limited English Proficient (LEP) must be reported as low income or not low income. In prior years this detail was not required. The ASSA testing and report must reflect these changes.

Extraordinary Aid (ExAid)

The calculation and reporting of Extraordinary Aid (ExAid) was also impacted by SFRA. Districts received state aid notices on December 12, 2007, which included an estimated extraordinary aid amount for the 2008-09 school year based on department prepared simulations of the new formula. Although 2008-09 is the first year that ExAid appears on the state aid printout, as in prior years, districts had the option to budget a projection of extraordinary aid at budget time. A new line item 10-3131, was created for this purpose.

On June 29, 2009 the department notified districts of their actual 2008-09 ExAid award. The ExAid award calculations pursuant to SFRA states that in certain instances, districts would be held harmless and receive the ExAid aid amount appearing in the department's projected December 12, 2007 calculation, even if the application submitted by the district for reimbursement of expenditures showed a lower eligible amount. Other districts had their estimated ExAid reduced by formula. In either situation, districts must reflect the final award as revenue and receivable in 2008-09.

The June 29, 2009 letter from the Assistant Commissioner explains the calculation of awards and additional (or reduction of) aid and how districts should account for this aid is included on the department's website <http://www.nj.gov/education/finance/fp/audit/0809/>. The following is a recap of that letter.

The calculation and method of recording ExAid depends on whether the actual ExAid (line E in the ExAid calculation form "2008-09 State School Aid/Extraordinary Aid" – Page EXA) is greater or less than the December 12, 2007 projected amount of extraordinary aid and whether the district received or did not receive adjustment aid 2008-09. In all cases, if the district included an estimated amount of extraordinary aid in the budget, the ExAid revenue must be adjusted to reflect the amount of the award.

1. Actual ExAid is greater than the December 12, 2007 ExAid amount and the district did not receive adjustment aid in 2008-09.

- Record the full amount of the award as ExAid.

2. Actual ExAid is greater than the December 12, 2007 ExAid amount and the district received adjustment aid in 2008-09.

- Record the full amount of the award as ExAid.
- Reduce the amount of adjustment aid by the amount of the increase (line G minus line H)
- Reduce the original adjustment aid to reflect the final award as shown on the "Adjusted 2008-09 State School Aid State Aid Summary".

3. Actual ExAid is less than the December 12, 2007 ExAid amount.

a. If the district was subject to the 10 or 20 percent cap, the district will receive additional state aid (line F) pursuant to the hold harmless provision in SFRA.

- Record the actual ExAid award
- Increase the state aid category (ies) that was (were) stabilized by the additional award in the following order – Security Aid, Special Education Categorical Aid, Equalization Aid. Districts in this category will have more detailed instructions

in an attachment to their ExAid notice “Instructions for Adjusting Stabilized Aid Categories”.

- b. If the district received adjustment aid, the district will receive additional state aid (line F) pursuant to the hold harmless provision.
 - Record the actual ExAid award
 - Increase the adjustment aid by the additional aid amount.
- c. If the district was neither capped/stabilized nor received adjustment aid,
 - If the reduction in ExAid results in a 2008-09 total aid increase of less than two percent, the district will receive additional state aid (Line F). Record the additional aid as adjustment aid.
 - If the reduction in ExAid does not result in a 2008-09 state aid increase that is less than two percent, do not adjust any other state aid categories.

Auditors are reminded that only the amount of ExAid not included in the original budget certified for taxes is permitted as an adjustment to the June 30, 2009 audited excess surplus calculation. Also, the state aid printouts will only be revised for changes to adjustment aid. Auditors should also reference Section II-10 of this *Audit Program* and the *Compliance Supplement* for additional information.

PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) PAYMENT DEFERRAL AND REQUIRED STATE AID REDUCTION

PERS Payment Deferral – P.L. 2009, c.19:

P.L. 2009, c.19, approved by the Governor on March 17, 2009, provides regular and vocational school districts the option of deferring 50 percent of the district’s 2008-09 regular PERS pension liability. Districts that elected to defer the pension liability must begin repaying the deferred amount over fifteen years starting in April 2012.

Required State Aid Reduction – P.L. 2009, c.22:

P.L. 2009, c.22, effective March 17, 2009, requires the department to reduce state aid for regular and county vocational districts in the amount of the allowable PERS deferred amount (whether the district elected to defer the payment or not). For 2008-09, regular and county vocational districts’ state aid may have been reduced by the lesser of: 50 percent of the district’s 2008-09 regular PERS payment, 50 percent of the district’s original budgeted PERS amount, or the district’s remaining state aid payment.

Guidance was issued to school districts via letter dated March 31, 2009 and posted on the NJDOE website at <http://www.nj.gov/education/finance/sf/033109pers.pdf>. Districts were advised to amend their 2008-09 budgets and reduce the state aid receivable. Districts were further advised to record the reduction in state aid in the following sequential order: Adjustment Aid, Equalization Aid, Security Aid, Transportation Aid, Special Education Categorical Aid, Educational Adequacy Aid and School Choice Aid. County special services districts, charter school districts and educational service commissions are not subject to the state aid reduction, therefore must pay the full 2008-09 liability. The district should have available a revised 2008-09 General Fund Payment schedule which reflects the final total PERS deduction in the final payment schedule column (P).

Auditors may encounter districts that properly recorded their PERS related state aid reduction to Adjustment Aid and subsequently were advised to record an ExAid adjustment to Adjustment Aid which is now in excess of the adjusted Adjustment Aid. In this instance, the district should restore the Adjustment Aid to the pre-PERS adjustment level by reversing the PERS adjustment

entry. The district should then record the ExAid adjustment as detailed above and then recalculate and record the PERS reduction to state aid using the ExAid adjusted aid amounts for purposes of calculating the PERS reduction categories.

Revised state aid notices that include the PERS state aid reduction were not issued. Auditors should use the guidance provided above, and original guidance provided to the district, to verify that the district has recorded the proper amount of state aid in each state aid category.

WAIVER RESTRICTIONS AND WAIVER OFFSET RESERVE

Districts that sought and received a Commissioner tax levy cap waiver in 2008-09 are restricted from transferring funds from those accounts that were approved for a waiver. For example, if a district received a waiver for energy costs, the energy account would be restricted from transferring funds from energy to any other account during the year without county office approval. The *2008-09 Budget Guidelines* (p. 176) and *N.J.A.C. 6A:23A-13.1* require that waiver accounts be restricted and any transfer to other accounts require Executive County Superintendent approval.

Surplus generated at the fiscal year-end of the budget year that a waiver has been approved may be deposited into capital reserve, maintenance reserve, or current expense emergency reserve at year end under N.J.S.A. 18A:7F-41 only after a reserve in the amount of the total approved waiver has been established. The transfer restriction will cause any unspent funds in that account to fall to surplus. When actual audited undesignated general fund balance at the fiscal year-end exceeds the estimated amount reflected in the district's original approved budget, a Waiver Offset Reserve account should be established up to the amount of the approved waivers. A Waiver Offset Reserve account established at June 30, 2009 would be used to either reduce a waiver request in 2010-11, or budgeted as surplus in the 2010-11. Auditors should determine whether a district obtained a waiver for the 2008-09 budget. A new line entitled "Waiver Offset Reserve" has been added in the Other Reserved Fund Balances in Section II-10 and Section III-4 where the excess surplus calculation is illustrated and discussed in detail.

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA)

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

Districts with approved "ARRA Requests for Approvals – Summer Programs" were permitted to obligate funds prior to June 30 for summer programs using ARRA-Title I, ARRA-Title I SIA Part A and ARRA-IDEA funding. The department website, <http://www.state.nj.us/education/arra/> includes:

- April memo from the Commissioner with guidance for ARRA-Title I, ARRA-Title 1 SIA Part A and ARRA-IDEA,
- District allocations ARRA Title I, ARRA Title I-SIA, and ARRA funding,
- May 13 memos from the Commissioner on ARRA-Title I and ARRA-IDEA, and
- Links to the U.S. Department of Education ARRA documents and guidance.

The Single Audit chapter (II-SA) of the *Audit Program* has been updated to include information on ARRA and contains a link to the OMB A-133 Compliance Supplement chapter on ARRA. These funds must be reported separately in the Schedule of Expenditures of Federal Awards and the Data Collection Form and identified using the prefix ARRA with the unique CFDA number for the specific ARRA program. ARRA Title I and IDEA funding and allocations can be found at <http://www.state.nj.us/education/arra/>.

SCHOOL-BASED BUDGETING

Guidance from *The Appendix to the Audit Program* (formerly *Abbott Addendum*) has been merged into the applicable chapters of this *Audit Program*. A table listing pages for guidance specific to audits of districts required to use school-based budgeting is included on pages xii and xiii in this Introduction chapter. Directions for preparing the schedules unique to districts using school-based budgeting will be available on the website <http://www.nj.gov/education/finance/fp/cafr/> where there are sample CAFR schedules and statements.

OTHER CHANGES / UPDATES FOR 2008-09

The following is a summary of changes / updates:

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

- Changed references to code that has been replaced by *N.J.A.C. 6A:23A*. The rules in *N.J.A.C. 6A:23A* supersede the rules at *N.J.A.C. 6A:10*, *6A:10A*, and *6A:23* where the provision of those rules are inconsistent. *N.J.A.C. 6A:10* was effective until March 2009.
- References to Early Childhood Program Aid (ECPA) have been changed to Preschool Education Aid, consistent with the School Funding Formula terminology.
- References to Education Opportunity Aid (EOA) and Discretionary Education Opportunity Aid (DEOA) for districts that use school-based budgeting, Demonstrably Effective Program Aid (DEPA), Instructional Supplemental Aid (ISA), TARA (Targeted Assistance Relief Aid (TARA), Higher Expectation for Learning Proficiency aid (HELP) state aid have been deleted throughout since the new school funding formula replaced them.

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

Introduction

Section I-1

- Added reference to CAFR website with sample schedules for districts required to use school-based budgeting (SBB) and instructions for preparing those SBB schedules
- Included list of required board of education policies (*N.J.A.C. 6A:23A*) to items that should be in the minutes

Section I-3

- Revision to special education categories in ASSA, compressing tiers to Elementary, Middle School and High School.
- Collection of enrollment data by LEP low income and LEP not low income in ASSA.
- New tests (2) may be used by districts for determination of LEP eligibility.
- Auditors should review hazardous busing policy if district has included students on hazardous routes in the DRTRS count.
- Universal Preschool terminology for DRTRS replaces Early Childhood Program (ECPA)
- Verification of bidding procedures and award of contracts is deleted (county office does this)
- Verification of transportation contracts properly prepared deleted (county office approves all transportation contracts).
- Two procedures related to determine whether expenditures are supported by a county approved contract were added.

Section I-4

- Revised requirement that districts required to use school based budgeting must have transfers approved by the Assistant Commissioner of Finance. These districts obtain approvals from the Executive County Superintendent.

Section I-5

- No change

Section I-6

- Sections on DEPA, ISA and Targeted At-Risk Aid (TARA) guidance deleted. If a district has multi-year TARA, refer to June 30, 2008 Audit Program on Finance website.
- Noted that the Uniform Minimum Chart of Accounts was modified to include new account codes, effective July 1, 2009 but districts were given the option to adopt this in 2008-09.

Section I-8

- Noted that NJAC 6A:23A-9.11(b) requires the Executive County Superintendent to review items over \$5,000 in the June 30 accounts payable and reserve for encumbrances balances. Encumbrances or accounts payable which are not valid will be reclassified to “designated general fund balance for tax relief in the subsequent school year”.

Section II-10

- Revision to tuition rate adjustments for prior year Abbott Parity Aid, Educational Opportunity Aid and Discretionary Educational Opportunity Aid per NJAC 6A:23A-8.7.
- Higher Expectation for Learning Proficiency Aid (HELP) is removed from the adjustments to excess surplus calculation. This aid was discontinued from the state budget when the new school funding formula (SFRA) was approved.
- Excess surplus calculation directions and illustration for districts that are required to use school-based budgeting is included in this chapter.
- Added Waiver Offset Reserve to the legally required reserves for districts that receive a Commissioner adjustment in the 2008-09 budget.

Section II-20

- Deleted sections on accounting for DEPA, ISA, DLNA and TARA. These state aids are no longer available and carryover was to be transferred to the general fund in 2008-09.
- Sample schedule and instructions for preparing the schedule of preschool education aid expenditures and carryover have been included.

Section II-30

- No Change

Section II-40

- State aid printouts are DS 9 and DS10 to reflect the new funding formula.

Section II-50

- No change

Section II-60

- Two new programs noted with CFDA numbers - CFDA 10.582 Fresh Fruit and Vegetable Program, and CFDA 10.559 Summer Food Service Program for Children).
- New federal procurement regulations require that Food Service Management Companies (FSMC) return all rebates, discounts or other applicable credits back to the Local Education Agency. Suggested procedures to test compliance with these regulations have been included.

Section II-80

- No change

Section II-SA

- New categories of State aid have been added.
- Clarification on carryover and deferred revenue added.
- Additional State School Building Aid – Chapters 10, 74, and 177 no longer exist.
- Federal CFDA and State aid numbers are updated.
- School lunch rates are updated.
- Included guidance on auditing schoolwide programs and blended resources

Section III-1

- The audit reporting package is only submitted to the NJ Dept. of Agriculture if there are findings in the Child Nutrition Program or in the low income eligibility testing.
- The Single Audit Reporting Package and the Data Collection Form can only be submitted electronically. A federal website with instructions for using the Federal Clearinghouse Internet Data Entry System (IDES) is listed.

Section III-3

- The sample Post-Retirement Benefits Disclosure has been modified slightly consistent with the State's change in the plan.

Section III-4

- Districts with a state monitor oversight must include the Auditor's Questionnaire in the Auditor's Management Report
- Sample finding and recommendation added for Accountability Regulations effective July 1, 2008.
- Sample findings for noncompliance with travel regulations effective December 18, 2008.
- Schedule of Audited Enrollments (ASSA) has been modified to reflect the compression of special education classifications and two additional column for Limited English Proficient (LEP) low income and LEM not low income, to be consistent with the School Funding Reform Act (SFRA).
- Higher Expectation for Learning Aid (HELP) deleted as an adjustment for excess surplus.
- Waiver offset reserve is an adjustment for excess surplus

Section III-5

- No change

Section III-6

- Policies required by Accountability Regulations included in checklist of documents district should have ready for audit.
- New questions related to Accountability Regulations added to Auditor Questionnaire. Some of these questions were previously under the school-based budgeting districts and have been moved to all districts since the Accountability Regulations are applicable to all.
- School Food service Checklist has been updated to reflect documents that are available from the web based certification system (SNEARS)
- Copies of the certifications of Local Biosecurity Plan and Local Wellness/Nutrition Policy were deleted from the School Food Service Checklist.
- Child Nutrition Program Agreement Addendum to participate in the Fresh Fruit and Vegetable Program, and the grant award agreement for Food Service Equipment Grant (ARRA) if applicable were added to the School Food Service Checklist.
- Deleted questions #27 through 32 on Education Opportunity Aid (EOA) and Discretionary Education Opportunity Aid (DEOA) since these categories of state aid were replaced by SFRA funding.

Section III-7

- No change

Section III-8

- Included the Schedule of Required Maintenance Expenditures by School Facility to the Quality Assessment Review checklist

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.

Guidance unique or specific to districts that are required to use school-based budgeting (SBB) is included in the applicable sections of this Audit Program as follows:

Description	Section-Chapter	Rationale
Refer to website for guidance on CAFR schedules specific to districts required to use school-based budgeting	Intro-xiii	Districts required to use school-based budgeting must prepare schedules reporting activity and balances in fund 15, the subfund used for school level accounting and reporting.
Excess surplus calculation modification for expenditures allocated to restricted federal resources and capital leases with blended funds	II-10	Fund 15 expenditures blended with federal must be allocated to state and local . Transfers to food service, transfer from capital outlay and from capital reserve to capital projects are not adjustments for districts using school based budgeting.
TPAF and FICA Reimbursement Calculation for SBB districts	II-20	The blending of federal, state and local funds in the school-based budgets recorded in Fund 15 necessitates a calculation of the salary amounts paid in Fund 15, which are attributable to federal sources.
Preschool Education Aid (PreKEA) schedules for the regular preschool education, preschool special education inclusion classroom costs and preschool self contained and other special education costs. SBB districts should refer to the CAFR website for guidance	II-20	These districts were required to budget <u>separately</u> the costs for regular preschool education, preschool special education inclusion classroom costs and preschool self contained and other special education costs. The year end CAFR reporting must reflect this budgeting detail.
Schoolwide Programs description and compliance	II-SA	Expanded explanation of schoolwide programs as related to Title I and how these are treated for preparation of the

Schedule of Federal Expenditures		
Blended resources and computing Type A and Type B programs	II-SA	Expenditures incurred in schoolwide programs must be included in the total expenditures of the program contributing the funds when determining Type A and Type B programs for Single Audit testing.
Auditor Questionnaire includes Q. 28 through 36 unique to SBB	III-6	Related to Position Control Roster (PCR) requirements of <i>N.J.A.C.</i> 6A:10 (for the period July 1, 2008 through February 28, 2009) and districts with schoolwide programs

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 July 2007 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) and is available through the website: <http://www.gao.gov/govaud/ybk01.htm>. A summary of major changes since the 2003 version is also available through that website.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of June 30 audits is Thursday, November 5, 2009. 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. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. The CAFR

The CAFR is the 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*. The Office of the State Comptroller (OSC) has the authority to request the CAFR and AMR be sent to OSC (*N.J.S.A. 52:15C-1 et seq.*).

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

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

3. Audit Summary Worksheet

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and given to the 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, significant deficiencies in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. *N.J.S.A. 18A:23-9* states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of 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 (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 guidance on financial reporting for districts required to use school-based budgeting 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.

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 refer to the website <http://www.nj.gov/education/finance/fp/cafr/> for guidance on schedules that specifically relate to districts that are required to use school-based budgeting.

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 districts that are required to use school-based budgeting. Indicate by “N/A” when a schedule is not applicable.

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the 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 (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 2008-09 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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- Roster of Officials
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- B. Fund Financial Statements:
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 - B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances
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 - B-6 Statement of Cash Flows

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- C. Budgetary Comparison Schedules:
 - C-1 Budgetary Comparison Schedule – General Fund
 - C-1a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (**if applicable**)
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- C-3 Budget-to-GAAP Reconciliation

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- D. School Based Budget Schedules (**if applicable**)
- D-1 Combining Balance Sheet
 - D-2 Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type – Actual
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- E. Special Revenue Fund:
- E-1 Combining Schedule of Program Revenues and Expenditures – Budgetary Basis
 - E-2 Preschool Education Aid Schedule(s) of Expenditures – Budgetary Basis
- F. Capital Projects Fund:
- F-1 Summary Schedule of Project Expenditures
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*Private citizens should be listed as Individual Taxpayer 1, Individual Taxpayer 2, etc.

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