

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATION

Appointment of Auditor

N.J.S.A. 18A:23-8 requires that an audit of the accounts of a school district be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant for New Jersey. In accordance with NJOMB Circular 98-07 school district management must obtain the audit firm's latest external quality control review report prior to appointing said firm for the annual audit.

Section 3.33 and 3.36 of the 1994 Yellow Book requires this external quality control review at least once every 3 years and also 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. An electronic codification of Government Auditing Standards as of July 1999 (through Amendment No.2) is only accessible electronically at the web site: [http:// www.gao.gov](http://www.gao.gov). **Amendment No. 3, Independence**, has been issued and is effective for periods beginning on or after October 1, 2002; early implementation is encouraged. Amendment No. 3 is also only available in electronic format at the GAO web site. (See the Introduction to the Audit Program for further discussion of auditor independence.)

A district board of education should refer to *N.J.A.C.* 6A:23-2.2(i), effective July 1, 2001 for recent regulations on obtaining audit firm peer reviews (www.state.nj.us/njded/code/title_6a/chap23/). The external quality control review determines whether the audit firms' 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 the following actions in advance of the audit. The failure of such personnel to complete them must become a matter of record in the audit questionnaire filed with the Office of Fiscal Policy and Planning, Department of Education.

- A. All cash on hand, including the petty cash fund, must be deposited in the bank depository by June 30th.

- B. All entries must be posted to date and records balanced.
1. All entries in the financial records of the secretary and the treasurer of school moneys must be up-to-date and balances reconciled. All adjusting entries must be made as of June 30th to reflect the accounting records on a modified accrual basis. **GASB 34 Model – see the GASB 34 section of this chapter for information on what is needed to convert to full accrual basis.**
 2. All closing entries must be made to reverse budgeted figures and close the actual revenue and expenditure activity to fund balance. The post closing trial balance must be available as of June 30th to facilitate the preparation of the Comprehensive Annual Financial Report (CAFR) by the district as well as revenue and expenditure subsidiary ledgers reflecting the final adjusted budgeted and actual revenues and expenditures.
 3. All entries in the Food Service, Athletic Association and Student Activity Account records must be up-to-date and records must be balanced.
 4. The Net Payroll Account and Payroll Agency Account must be reconciled monthly.
 5. Bond and interest accounts must be currently maintained and reconciled monthly.
- C. Assemble and have the following records available for audit:
1. Complete Comprehensive Annual Financial Report (CAFR) as of June 30th.
 2. Trial balance reflecting adjusting and closing entries as of June 30th.
 3. All books and records of the board secretary/business administrator including but not limited to:
 - a. General Journal
 - b. Special Purpose Journals
 - c. General Ledgers
 - d. Subsidiary Ledgers
 - e. Chart of Accounts
 4. Monthly financial statements, prescribed by statute, of the secretary and the treasurer of school moneys per *N.J.S.A.* 18A:17-9 and 36.
 5. All purchase orders, including lists of outstanding purchase orders for both the beginning and ending dates of the audit. Separate lists should be prepared for those orders representing accounts payable at June 30th and those orders that will be liquidated and paid in the subsequent fiscal year. The total of these lists should agree with the June 30th general ledger balances for accounts payable and reserve for encumbrances, respectively.
 6. All paid and voided warrants and payroll checks, together with the bank statements on which they are listed, arranged in order by month. Certified and approved payroll registers in chronological order.
 7. Paid vouchers. The secretary should be certain that all paid claims have been properly approved for payment, recorded in the minutes, and that affidavits or declarations have been completed on those exceeding one hundred fifty dollars (*N.J.S.A.* 18A:19-3).
 8. Monthly bank reconciliation for all accounts.

9. Analyses of each balance sheet account balance at June 30th (Section I, Chapter 8).
10. Analyses of net payroll and payroll agency account balances.
11. Analysis of the miscellaneous income
12. Paid bonds and coupons, together with reconciled bank statements on which they are listed chronologically. The bond register, posted to date.
13. Approved Demonstrably Effective Program Operational Plan and Early Childhood Program Plan, the 2001-02 Budget Statement Supporting Documentation Items 15 (Early Childhood Program Aid) and 16 (Demonstrably Effective Program Aid) which represent the approved plan, and approved transfer notification forms.
14. Schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30th receivable amount plus the current year June 30th receivable balance.
15. Minutes of board meetings, which should be examined prior to the audit to determine whether the proceedings are complete and properly signed.
16. Board resolutions to appropriate funds to supplement an already established capital reserve account or to transfer undesignated general fund balance or excess undesignated general fund balance to the capital reserve account at any time during the budget year. (*N.J.S.A.18A:7G-31(b)(c)*).
17. Capital Project file (*N.J.A.C. 6A:26-3.10*).
18. Long Range Facilities Plan (*N.J.S.A.18A:7G-4, N.J.A.C.6A:26-2.1*).
19. Economic Development Authority (EDA) grant agreement (signed).
21. Insurance policies and fidelity bonds.
22. All contracts, including transportation agreements, leases and conveyances. (Contracts should include all salary, transportation and other written contracts.)
23. Records, bills, orders and other supporting documentation of the Food Service Fund, Athletic Association, Student Activity Accounts and Special Projects.
24. Statements of verification of state and federal funds, or other entitlements.
25. All applications, 3rd party contracts (when applicable) and financial reports filed for state/federal reporting requirements.
26. The October 15, 2001 A.S.S.A. with supporting workpapers, documentation of internal procedures, school registers, applications for free and reduced meals, private school tuition contracts and student's individualized education program (IEP).
27. The 2001-2002 District Report of Transported Resident Students (DRTRS), Eligibility Summary Report produced by the department and the 2001-2002 DRTRS Eligibility Summary Report produced by the DRTRS data collection software.

28. Abbott districts:
 - a. School Based budgets (first, second, mid-year second and third cohort Abbott districts only).
 - b. Whole School Reform Implementation Plan (first, second, mid-year second and third cohorts only).
 - c. Additional Abbott v. Burke State Aid funding documents (including approval letter, district budgetary analysis, final reverse prioritization listing, etc.) - when applicable.
 - d. The IASA LEA Consolidated Formula Subgrant Application section indicating which schools have schoolwide status - when applicable.
29. Summary Schedule of Prior Audit Findings prepared in accordance with USOMB Circular A-133 section .315, if applicable.
30. Copies of any audit or compliance reports received from oversight or regulatory agencies during the current year and copies of any dispute resolutions related to prior year issues.

D. GASB 34 Implementation

Districts that are implementing GASB 34 should assemble and have the following records available for audit:

1. Fixed asset schedules, including the following detail:

- Date placed in service
- Cost/basis
- Beginning of the year balance - accumulated depreciation
- Current year depreciation
- Ending balance - accumulated depreciation
- Classification of the asset (e.g., land, building, equipment)
- Method of depreciation (e.g., straight line)
- Useful life of each asset used in computing the depreciation.
- Identification by program

If the asset is specifically identifiable to a program (see the lines used in the Statement of activities), then that program should be noted and depreciation charged to that program. If not, there should be an indication that it is not specifically identifiable. The assets should be in one of two categories based on how the each asset is used - 1) governmental fund or 2) business like activity (enterprise fund).

2. Schedule of long-term liabilities including the following for each category of debt (bonds, capital leases, compensated absences, other –specify):

- Beginning of year balance
- Additions
- Reductions
- End of year balance
- Amount due within one year

The liabilities should be grouped by those related to the activity of 1) a governmental fund or 2) a business like activity.

3. Schedule identifying the June 30, 2002 debt balances (e.g., bonds, capital leases) related to capital assets in order to support the calculation of net assets invested in capital assets, net of related debt. This schedule should indicate the amount of unspent proceeds.

4. Schedule of accrued interest on long-term debt (bond documents to support the calculation of interest accrued to June 30).
5. Trust documents (trust instrument or letter specifying restrictions) which support classification as either a permanent trust or private purpose trusts (e.g., scholarships).
6. Worksheet calculation for converting from governmental fund balances to net assets.

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 (applicable only for GASB 34 model)
6. Enterprise Funds and Internal Service Funds
7. Trust and Agency Funds
8. Student Activity Funds
9. General Fixed Assets Account Group (applicable only for pre GASB 34 model)
10. General Long-term debt Account Group (applicable only for pre GASB 34 model)

The audit shall also include a determination of the extent to which the school board has used contracts entered into by the State Division of Purchase and Property pursuant to P.L. 1969, c. 104 (C. 52:25-16.1 et seq.) in the purchase of materials, supplies or equipment for the school district (Refer to Section I – Chapter 5).

The areas of responsibility concerning completion of the audit and timely submission of the CAFR, the Auditor's Management Report, the Audit Questionnaire, 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 diskette rests with the auditor. 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.

The auditors' responsibility is to perform an audit for the purpose of rendering an opinion on the fairness of the general-purpose financial statements (basic financial statements if implementing GASB 34). 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 98-07, 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. Two copies of the Audit Package (the CAFR, the Auditor's Management Report, the Audit Questionnaire, the Data Collection Form (if applicable)) and one Audit Summary Worksheet diskette are submitted by the auditor to the Department of Education. **Abbott districts are requested to provide four copies of the audit package to the Department of Education.**

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.**"