

**FINANCIAL ACCOUNTING  
FOR  
NEW JERSEY SCHOOL DISTRICTS  
CHARTER SCHOOLS AND  
RENAISSANCE SCHOOL PROJECTS**

**THE AUDIT PROGRAM**

**2014-2015**

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

**David C. Hespe, Commissioner  
State Board of Education**

**Yut'se O. Thomas  
Director  
Office of School Finance  
Division of Field Services**

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## **SIGNIFICANT CHANGES FOR 2014-15**

- ❖ Addition of Renaissance School Projects throughout the audit program. P.L. 2014, c. 61, effective October 6, 2014, amended N.J.S.A. 18A:36C-7h to specify that in addition to adhering to the renaissance school contract, renaissance school projects must operate in accordance with the laws and regulations that govern “charter schools”. For periods prior to the October 6, 2014 effective date of that law, in addition to the renaissance school contract, renaissance school projects were permitted to operate in accordance with the laws and regulations that govern “other public schools”. Accordingly for purposes of this Audit Program, unless specifically noted, effective October 6, 2014, renaissance school projects are subject to the same laws, regulations, and audit policy requirements as charter schools. Renaissance school project auditors are advised that one notable exception provided by N.J.S.A. 18A:36C-7 d. is that renaissance school projects are not required to adhere to Public School Contracts Law (N.J.S.A. 18A:18A-1).
  - Addition of renaissance school project auditor requirement to report upon Renaissance School Project revenue received from Renaissance School District (N.J.S.A. 18A:36C-7 e.); renaissance school project contracts and operations (*N.J.A.C. 6A:31-1.1 et. seq.*) and; renaissance school project financial operations (*N.J.A.C. 6A:23A-22.1 et. seq.*).
  - For 2014-15, three Renaissance school projects were in operation, all located within the City of Camden.
- ❖ Added guidance for independent auditor testing of ASSA low-income classification (at-risk status) of students in school districts/charter schools with individual school(s) or district-wide participation in the United States Department of Agriculture’s Community Eligibility Program (CEP). Schools participating in CEP do not collect a current year Household Application for Free and Reduced Meals from any student attending a school participating in CEP. The department developed a source document identified as the 2014-2015 Household Information Survey as an alternative measure of income and at-risk status at the student level for students attending a CEP school. This form was distributed by the school(s) to be completed by the student’s head of household and returned to the school and used by the school to report a student’s at-risk status in various State data collections. This form is not used by the district in determining meals eligibility. Meals are provided free of charge to all students in a CEP school. In addition to the new alternative form, districts and charter schools participating in CEP were provided with a process to follow and instructions for using the form to document at-risk status for reporting. This Audit Program includes independent auditor guidance applicable to the Household Information Survey.
- ❖ Added reference to the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* released on December 26, 2013 and applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014. These

administrative rules and cost principle requirements also apply to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. Nonfederal entities that have multi-year awards follow the old guidance for the pre-December 26 funding periods and the new guidance for the post-December 26 funding periods. The new administrative rules and cost principles revise other standards related to audit requirements that are not effective for the year ending June 30, 2015. LEA auditors should be aware that certain requirements included in the new standards are first effective for the fiscal year ending June 30, 2016. Of note, effective for the fiscal year ending June 30, 2016 the single audit threshold will increase from the current \$500,000 to \$750,000 of expenditures of federal awards; the reporting threshold for questioned costs increases from \$10,000 to \$25,000; and the major program determination calculation is modified to focus on areas identified as having internal control deficiencies that are also identified as material weaknesses.

- ❖ Added that effective December 26, 2014, the New Jersey Department of the Treasury-Office of Management and Budget has revised the State's Single Audit Policy in recognition of the administrative rules and cost principle requirements contained in the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Circular Letter (CL) 15-08-OMB replaces CL 04-04-OMB and specifies that rules and requirements contained in the federal OMB are also applicable to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. CL 15-08-OMB revises State policy regarding audits of grant recipients to recognize that new and incrementally funded federal awards issued on or after December 26, 2014 are subject to the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- ❖ Clarified that the revised State's Single Audit Policy effective December 26, 2014 established in the State of New Jersey Department of the Treasury Office of Management and Budget Circular Letter 15-08-OMB establishes the single audit threshold as \$750,000 of expenditures of federal or State financial assistance during any fiscal year period beginning after December 26, 2014. Accordingly, for the fiscal year ended June 30, 2015 the single audit threshold of \$500,000 of expenditures of federal or State financial assistance as specified in Circular Letter 04-04-OMB remains in effect for audits of fiscal year ending June 30, 2015. Also still in effect for the year ended June 30, 2015, Circular Letter 15-08-OMB maintains that recipients that expend less than \$500,000 in federal or State financial assistance within the fiscal year, but expend \$100,000 or more in State and/or federal financial assistance within the fiscal year must have either a financial statement audit performed in accordance with *Government Auditing Standards* (Yellow Book) or a program-specific audit in accordance with the *Uniform Grant Guidance* and State policy.



- ❖ Revised auditor guidance for the reporting of Teacher's Pension and Annuity Fund (TPAF) on-behalf payments in the accrual basis (district-wide) financial statements pursuant to the reporting requirements of Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions*.
- ❖ Updated guidance to reflect that TPAF/FICA reimbursement payments to the State will no longer require the signature of the Licensed Public School Accountant. In lieu of affixing his or her signature to the form, the Licensed Public School Accountant will be required to review the form and issue a comment on the payment in the Auditor's Management Report (AMR)
- ❖ Added audit guidance for Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 and for GASBS No. 71 *Pension Transition for Contributions Made Subsequent to the measurement Date*, issued November 2013 each first effective for periods beginning after June 15, 2014. This Statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to participating employer financial reporting for pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Guidance provided is specific to Teachers' Pension and Annuity Fund (TPAF), Public Employees' Retirement System (PERS), and Defined Contribution Retirement Plan (DCRP).
- ❖ Updated the preliminary rate for the State payment to the Teacher's Pension and Annuity Fund for FY 2014-15 to 12.36%. The social security rate remains at 7.65%. Consequently, the preliminary TPAF and FICA rates total 20.01%. That rate has been used for illustration purposes in the sample reimbursement schedule. Districts must use the actual rate (not available at the time of release of this Audit Program) when calculating the reimbursement.
- ❖ Added guidance in the State Aid/Grant Compliance Supplement to include P.L. 2014, c.67 which amended N.J.S.A.18A:40-28 effective November 13, 2014, to require a board of education to provide timely and meaningful consultation with appropriate nonpublic school representatives, including parents, prior to any change in the provision of non-public nursing services.
- ❖ Added auditor guidance for P.L. 2015, c.46 that effective May 7, 2015 amended N.J.S.A. 18A:7F-41 to permit a board of education to appropriate federal impact aid funds to establish or supplement a federal impact aid general fund reserve or federal impact aid capital fund reserve.
- ❖ Added auditor guidance that consistent with the submission requirements established by the Federal Audit Clearinghouse (FAC) effective for the June 30, 2015 audit, New Jersey now also requires audit file submissions to be unlocked, unencrypted, text-searchable PDF files with a standard format for audit finding reference numbers presented sequentially (2015-001 through 2015-999).
- ❖ Revised Audit Reporting Package submission instructions for the elimination of the requirement to submit CD-ROMS, flash drive or email attachments of the CAFR.

- ❖ To enhance transparency in financial reporting, beginning with the fiscal year ended June 30, 2015, the Auditor's Management Report (AMR) will be available for public access on the DOE website along with the CAFR.

## OTHER CHANGES / UPDATES FOR 2014-15

**The following is a summary of changes / updates:**  
**(changes for 2014-15 are highlighted in gray)**

General changes are found throughout the document and include:

Deletion of all references to ARRA and Ed Jobs funds as the grant period has expired

Specific changes are found in the following sections/chapters:

### Introduction

- Revised the section on external auditor independence to include reference to AU-C Section 220 of the *Clarified Statements on Auditing Standards* issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) and to General Accounting Office (GAO) *Government Auditing Standards (Yellow Book Rev. 2011)* paragraphs 3.02 through 3.59 which contain the independence standards for Generally Accepted Governmental Auditing Standards (GAGAS). Paragraph 3.40 addresses non-audit activities such as financial statement preparation, modified accrual to accrual conversions, and other non-audit services provided to a governmental audit client. Those non-audit activities must be evaluated using the conceptual framework provided in paragraph 3.46.
- Clarified that due to the statutory due date falling on a weekend, the deadline for submission of June 30, 2015 audit reports (CAFR/AMR) is Monday, December 7, 2015.
- Added J-21 Renaissance School Project Performance Framework, Financial Performance, Fiscal Ratios to the Outline of the CAFR.

### Section I-1

- Clarified that a renaissance school project auditor must obtain a unique PIN for each renaissance school project audit. Refer to Significant Changes above.
- Deleted reference to pre-Clarity Project auditing standards.
- Added reference and link to the completed Clarity Project standards (SAS No. 122 through SAS No. 128).
- Added guidance for establishment and reporting Federal Impact Aid Reserves.
- Added P.L. 2013, c. 28 which amended N.J.S.A. 52:14-15h to allow a district to opt for mandatory direct deposit for all employee compensation on or after July 1, 2014, with certain exceptions delineated in the law.

### Section I-2

- No change.

### Section I-3

- Added that revised FY 2014-15 Choice Aid notices, dated July 11, 2014 were posted in the districts' Homeroom page under "Choice Aid".

- Clarified that for LEP students classified as not low income that attend a CEP (Community Eligibility Program) school, the absence of a valid 2014-15 New Jersey DOE Household Information Survey is deemed to support the not low income classification.
- Added guidance for auditor verification of Renaissance School Project Aid
- Added guidance for auditor testing of the New Jersey Household Income Survey Form which replaces the Application for Free and Reduced Price Meals in schools participating in the US Department of Agriculture's Community Eligibility Program (CEP)
- Updated guidance for testing of bilingual education program aid.
- Revised definition of "operating days" pursuant to the US Department of Agriculture's directive from "the thirtieth operating day of the school year beginning with the first day of the school year defined as the first day that school is open to students even if no meals are served" to "the thirtieth operating day of the school year beginning with the first day of the school year defined as the first day that school is open to students and meals are served".
- Added guidance for recording the receipt of additional Medicaid funding under the American Recovery and Reinvestment Act (ARRA) for those eligible school districts and charter schools participating in SEMI during the quarters ending December 31, 2008, March 31, 2009, and June 30, 2009 through December 31, 2010. A listing detailing amounts by district/charter school is included.

#### Section I-4

- Added guidance for establishment and reporting Impact Aid General Fund Reserve account and an Impact Aid Capital Fund Reserve account.

#### Section I-5

- No changes.

#### Section I-6

- Clarified guidance to ensure proper account classifications, utilization of Uniform Minimum Chart of Accounts and accurate Audsum reporting.

#### Section I-7

- No changes.

#### Section I-8

- No changes.

#### Section II-10

- Clarified that the outstanding amount of the Community Disaster Loan (CDL) principal and accrued interest should be included in the Statement of Net Position's non-current portion of the long term obligation schedule and described accordingly in the notes to the financial statement.
- Updated guidance for filing applications for Extraordinary Aid (ExAid).

- Added guidance for TPAF, PERS, and DCRP pension reporting under GASBS 68.
- Revised audited excess surplus calculation for the statutory federal impact aid reserve.
- Added guidance for establishment and reporting of Impact Aid reserve accounts.

#### Section II-20

- Added guidance to reflect the updated liquidation period for TPAF reimbursements.
- Updated guidance to reflect that TPAF/FICA reimbursement payments to the State will no longer require the signature of the Licensed Public School Accountant. In lieu of affixing his or her signature to the form, the Licensed Public School Accountant will be required to review the form and issue a comment on the payment in the Auditor's Management Report (AMR);
- Updated FICA Wage limit for 2014 to \$117,000 and 2015 to \$118,500.
- Updated the preliminary rate for the State payment to the Teacher's Pension and Annuity Fund for FY 2014-15 to 12.36%. The social security rate remains at 7.65%. Consequently, the preliminary TPAF and FICA rates total 20.01%. That rate has been used for illustration purposes in the sample reimbursement schedule. Districts must use the actual rate (not available at the time of release of this Audit Program) when calculating the reimbursement.
- Updated to reflect the addition of four charter schools that are approved to operate preschool programs.

#### Section II-30

- Capital Project Fund Guidance is separated into charter school and renaissance school project section and school district section.
- Added audit requirement for the review of the status of each project reported in the capital projects fund. Projects that are complete (e.g. certificates of occupancy have been issued; contractor's retainage has been paid, etc.) must be closed out and removed from the capital projects fund balance. Refer to the appropriate regulations and to the guidance on pages II-10.27, and II-30.5 - II-30.6 of this Audit Program for statutory and regulatory reference for the available transfer options for unexpended bond proceeds (N.J.A.C. 6A:26-4.6(c); unexpended transfers from capital reserve (N.J.A.C. 1A:23A-14.1(j)3); and unexpended transfers from capital outlay (N.J.A.C. 6A:23A-14.1(h)5).

#### Section II-40

- No changes

#### Section II-50

- No changes.

Section II-60

- Updated references to NJ Department of Treasury Circular 04-04 OMB to include the recently issued 15-08 effective December 26, 2014.
- Updated to include that auditors should use the risk based approach for federal programs as described in Federal Sub-part F–Audit Requirements, Section 200.518 to determine which state programs are major programs. Auditors should also use the criteria outlined in Sections 200.519 and 200.520 when making risk determinations for state programs.
- Added reference to CFDA 10.558 Child and Adult Care Food Program, and CFDA 10.579 School Meals Equipment and School Breakfast Expansion,
- Clarified the Net Cash Resource Schedule is only required to be included in the AMR if the Child Nutrition Program is audited as a major program in the current audit period in accordance with federal OMB Circular A-133 and/or the federal Uniform Grant Guidance.
- Removed reference to the *USDA Eligibility Manual For School Meals* (2012) and replaced with reference to *the USDA Eligibility Manual for School Meals* (2014) and revised audit guidance accordingly.
- Added the requirement for Direct Certification of students for free meals was communicated to LEAs through the July 14, 2014 memo issued by the NJ Department of Agriculture that specifies that the performance dates of the three required direct certification matches were July 15-September 1, 2014, October 1-October 30, 2014 and March 1-March 30, 2015.
- Clarified that the Direct Certification process provides verification of a child’s status as residing in a foster home. This process is an additional option to the previous requirement to obtain a letter from the NJ Department of Children and Families to serve as certification that a child is a foster child under State care. The option to obtain an official letter, in the absence of a Direct Certification, also remains.
- Clarified that The Healthy Hunger-Free Kids Act of 2010 (HHFKA), in an effort to promote a new healthier meal plan, for the 2014-15 year, provides for an additional six cent federal lunch reimbursement for those schools that have applied for, and been approved by the DOA, to receive additional reimbursement. No additional state reimbursement for 2014-15 exists.
- Revised the due date of Part 1 of the Verification Summary Report from October 15 to October 30th first effective for the 2014-15 school year.
- Revised the due date of Part 2 of the Verification Summary Report from November 15 to November 30 first effective for the 2014-15 school year.
- Eliminated the possibility that where the net cash resources exceeds three months average expenditures, the state agency may require the School Food Authority to reduce the “paid” meal prices and replaced that provision with the requirement to demonstrate improved food quality, or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:14)
- Deleted the requirement for the FSMC to provide the detailed expenditure information necessary for the LEA to perform the required segregation of program versus non-program meal and related costs in the accounting records and reports.

- Revised the guidance to reflect a change in the US Department of Agriculture's reimbursement policy that beginning with the fiscal year ended June 30, 2015 provides that (previously only underclaims were required) overclaims must also be verified and specifically identified in the Schedule of Meal Count Activity – where applicable) as a result of late revisions to vouchers.
- Added reference to the Addendum to the State prototype FSMC contract.
- Clarified section on audit of FSMC contracts and added to that section the requirement that no expenditure has be made from the nonprofit school food service account that permits or results in the FSMC's receiving payments in excess of its actual, net allowable costs
- Added guidance for the Child and Adult Care Food Program (CACFP) At-Risk Afterschool Meals (Dinner) Program:
- Added auditor testing of revenue generated by nonprogram foods as required by 7 CFR 210.4
- School Meals Equipment and School Breakfast Expansion.
- Added guidance for eligibility testing of Community Eligibility Programs (CEP) and review of Household Eligibility Applications.
- Updated CNP reimbursement rates and programs for 2014-15.
- Updated Child Nutrition Program memorandums and attachments.

Section II-70

- No Change.

Section II-80

- No Change.

Section II-90

- Updated link to the Department of Labor Worker Unemployment Rates

Section II-CA

- No Change.

Section II-LT

- Added reference to Governmental Accounting Standards Board Statement (GASBS) No. 68 *Accounting and Financial Reporting for Pensions*.

Section II-SA

- Provided link to DRAFT 2015 federal OMB Compliance Supplement and statement that a link to the final document will be provided upon issuance by the federal OMB
- Included reference to NJ OMB Circular Letter 15-08 *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* which supersedes OMB Circular Letter 04-04
- Included reference to The Federal Office of Management and Budget December 26, 2013 release of *The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014.

- Clarified that the single audit threshold for fiscal year ended June 30, 2015 is \$500,000 or more expended in federal financial assistance or state financial assistance within the recipient's fiscal year. For the fiscal year ended June 30, 2015 the major program determinations also remain unchanged by the release of the Uniform Grant Guidance.
- Clarified guidance that for all federal entitlement (formula) grants the grant period begins July 1 and ends June 30. For discretionary (competitive) grants, the grant period begins/ends at any time; there is no set period for all discretionary grants.
- Added that when the unexpended balance of funds through the current year's Final Expenditure Report exceeds any carryover limitation (e.g. for NCLB Title I, carryover is limited to 15% of the total allocation), and this balance of funds was not paid to the district/charter school/renaissance school project, the balance is considered "released" by the district/charter schools/renaissance school projects to the DOE. Released funds are unexpended and unpaid funds that have been reported/recorded as "Released Funds" in the Final Expenditure Report.
- Updated federal grant liquidation period from 45 days to a sixty day liquidation period which is defined by the Office of Grants Management as ending on August 31, 2015.
- Clarified that when an OFAC report finding is determined to not be a finding included under the single audit section, the auditor is required to report the status of the finding in the Auditor's Management Report.
- Updated Federal and State program numbers.

### Section III-1

- Clarified reporting package due date as December 7, 2015
- Revised Audit Reporting Package submission instructions to reflect the elimination of the requirement to submit CD-ROMS
- Revised guidance to include new requirement that all PDF uploads of reporting package to the OFAC CAFR Repository contain text searchable, unlocked and unencrypted data only.
- Updated to reflect the policy for file modifications submitted after audit report package submission to include instructions to submit any revisions via the CAFR repository.
- Revised section references to the 2015 Single Audit Summary to reflect that sections A, B, and E apply to all districts/charter schools/renaissance school projects and section C applies to those districts/renaissance school projects schools subject to a federal and/or state single audit.
- Revised the requirement for the submission of the final archived copy of the Federal Data Collection Form (SF-SAC) to the New Jersey Department of Education to reflect that the auditor must provide a final archived copy to the district which must then transmit the final archived copy through the CAFR Repository.
- Eliminated the requirement to provide CD-ROM or paper copy of audit reporting package to the NJ Department of Agriculture and replaced that requirement with the



requirement that, only where applicable, the audit firm is to email a copy of the school district, charter school, or renaissance school project's Corrective Action Plan to the NJ Department of Agriculture. The remainder of the relevant reporting items, the CAFR and the AMR (beginning with fiscal year ended June 30, 2015), are available on the NJ DOE website.

- Clarified that based on the statutory deadline for filing the annual audit report for New Jersey School Districts/Charter Schools/Renaissance School Projects (December 7, 2015 for fiscal year ended June 30, 2015), submissions to the Federal Clearinghouse must occur within 30 days after the school district, charter school, or renaissance school project's receipt of the auditor's report(s); no later than January 6, 2016.

### Section III-2

- Clarified that *The Federal Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* released on December 26, 2013 increased the Single Audit threshold to \$750,000 effective for fiscal years beginning after December 26, 2014.
- Added the auditee requirement to comply with the Uniform Guidance began with new funding received after December 26, 2014. In order for the audit requirements to be implemented similarly with the change in grants management, the first single audits to be completed under *Uniform Guidance - Subpart F* will be for the single audit for the fiscal year end June 30, 2016. Guidance specifies that prior to December 31, 2015, A-133 audit requirements remain in force. Early adoption is not permitted.

### Section III-3

- Added guidance for implementation of GASBS 68 for pension reporting, including footnote and RSI disclosures.
- Added pension expense recognition to the illustrative *Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures*
- Added illustrative disclosures for federal impact aid reserve, general and capital funds.
- Updated Post Retirement Benefit note to the financial statements to include Division of Pensions data as of June 30, 2014.
- Updated Statistical Section to reflect that the Charter School Project Performance Framework, Financial Performance, and Fiscal Ratios under Schedule J-21 are also applicable to renaissance school projects. Added Renaissance School Project Performance Framework, Financial Performance, and Fiscal Ratios under Schedule J-21.

### Section III-4

- Added that beginning with fiscal year ended June 30, 2015 the Auditor's Management Report (AMR) will be available to the public on the DOE Finance Office webpage.

- Added that for renaissance school projects, the Schedule of Audited Enrollments provides a summary of the results of the audit testing of the Renaissance Enrollment Report, NJ School Register and submission of enrollment counts to the renaissance school district and/or to the Department.
- Added to the AMR (Miscellaneous) a sample finding and sample recommendation for a school district's failure to comply with continuing disclosure contractual obligations with respect to past issuances of debt while that debt remained outstanding.
- Added to the AMR Financial Planning, Accounting and Reporting – Payroll Account – a sample finding and recommendation where the board of education made a merit bonus payment without prior confirmation from the Executive County Superintendent that a quantitative merit criterion or a qualitative merit criterion had been satisfied and without prior approval by the district board of education and Executive County Superintendent, as required by N.J.A.C. 6A:23A-3.1(e)10.iv.
- Added to the AMR Financial Planning, Accounting and Reporting – Position Control Roster – a sample finding and recommendation that inquiry and subsequent review of the Position Control Roster found inconsistencies between the payroll records, employee benefit records (e.g. pension reports and health benefit coverage reports), the general ledger accounts to where wages are posted (administrative versus instruction), and the Position Control Roster. Added to the AMR Financial Planning, Accounting and Reporting – Classification of Expenditures – a sample finding and recommendation regarding the use of an improper account for the appropriation of, and expenditures made, for home instruction costs (e.g. contracted payments for home instruction were improperly classified as salaries for regular education instruction).
- Added to the AMR Financial Planning, Accounting and Reporting – Classification of Expenditures – a sample finding and recommendation regarding misposting of the salary of the assigned state-appointed monitor to the proper appropriation line.
- Added to the AMR Financial Planning, Accounting and Reporting - Board Secretary's Records - a sample finding and recommendation regarding a district having an assigned state-appointed monitor, made a transfer from an advertised appropriation account without seeking and obtaining prior approval of the state monitor (N.J.S.A. 18A:7A-55).
- Added to the AMR – Pupil Transportation – a sample finding and recommendation regarding the sending of payments of aid-in-lieu of transportation to other than the parent or legal guardian as required by *N.J.A.C. 6A:27-2.3(d)*.
- Added to the AMR – Financial Planning, Accounting, and Reporting – TPAF Reimbursement assurance statements or sample finding and recommendation regarding the requirements for the district to adopt internal control procedures designed to ensure that reimbursement(s) of TPAF/FICA paid by the State on-behalf of TPAF employees charged to federal grants are properly reported (as an expenditure or as an unliquidated obligation) in the current year's Final Report(s) for all federal awards. Emphasized that the statutory liquidation period is 90 days.

- Added to the AMR School Purchasing Programs – Contracts and Agreements – a sample finding and recommendation regarding instances where the board of education awards a contract for insurance coverage and (or) insurance consultant services with reference in the awarding resolution to extraordinary unspecifiable services as provided by N.J.S.A. 18A:18A-5 (10). However, upon examination, the auditor found that the procurement process did not comply with the procedures for implementation specified at *N.J.A.C 5:34-2.3*.
- Clarified that if an OFAC finding is determined not to be a finding under the single audit section, the auditor is only required to report the status of the OFAC finding in the AMR, and not in the CAFR.
- Revised the excess surplus calculation expenditure adjustment factor line (K) to reflect on line (H) Federal Impact Aid. The passage of P.L.2015, c.46 amended N.J.S.A. 18A:7F-41 to permit a board of education to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. Accordingly, effective for the year ending June 30, 2015 the Federal Impact Aid adjustment to expenditures is limited to the portion of Federal Impact Aid Section 8002 and Section 8003 (general) received during the fiscal year and recognized as revenue on the General Fund Budgetary Comparison Schedule, but not transferred to the Federal Impact Aid Reserve – General (8002 or 8003) by board resolution during June 1 to June 30 of the fiscal year under audit. Amounts transferred to the reserve are captured on line (C4).
- Revised the excess surplus calculation expenditure adjustment factor line (K) to reflect on line (J4) Family Crisis Transportation Aid.
- Revised the excess surplus calculation of unreserved/undesignated general fund balance to include:
  - Impact Aid General Fund Reserve (Sections 8002 and 8003) \$\_\_\_\_\_
  - and,
  - Impact Aid Capital Fund Reserve (Sections 8007 and 8008) \$\_\_\_\_\_

#### Section III-5

- Added Impact Aid General Fund Reserve and Impact Aid Capital Fund Reserve to the table of fund balance reserves.

#### Section III-6

- Updated the budgeted State Per Pupil cost for legal fees from \$47 to \$49.40 and updated the actual State Per Pupil cost for legal fees from \$52 to \$56
- Added renaissance school project contract with the renaissance school district and Aid Notices to annual audit checklist
- Added items to the audit questionnaire relating to a review of the position control roster, posting of the salary of the state monitor, and Executive County Superintendent review of the merit criterion prior to payment of a merit bonus payment.
- Added requirement to verify non-profit status of renaissance school operators.
- Added requirement to verify the establishment and maintenance of Escrow Account for charter schools.

Section III-7

- Added links to templates for the Certificate of Implementation of Corrective Action Plan and the Corrective Action Plan.

Section III-8

- Updated Quality Assessment Review Checklist (QAR) to reflect revisions to the AICPA's illustrative audit report(s) for governmental entities issued August 6, 2014.

## OVERVIEW

*Financial Accounting for New Jersey School Districts/Charter Schools/Renaissance School Projects (The Audit Program)* is updated annually and includes instructions for both district/charter school/renaissance school project personnel and public school accountants regarding preparing for and performing the annual audit. The full text of *The Audit Program* is available on the web site <http://www.nj.gov/education/finance/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:23A-16) require school districts/charter schools/renaissance school projects 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 (CAFR) section at the end of this introduction provides additional information on the CAFR.

As amended by P.L. 2014, c.61, N.J.S.A. 18A:36C-7h provides that a nonprofit entity shall operate a renaissance school project “in accordance with the contract entered into pursuant to section 6 of this act, the provisions of this act, and the laws and regulations that govern charter schools which are not inconsistent with this act.” Accordingly, in this Audit Program, unless specifically noted, “charter schools” shall also refer to “renaissance school project”.

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-xvii      | 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.   |
| 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. |
| 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. |
|  |  |       |   |

### Reference Materials

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

### Responsibility/Government Auditing Standards

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

By reference included in State of New Jersey Department of the Treasury Single Audit Policy Circular Letter 15-08-OMB effective December 26, 2014, the provisions of OMB Circular A-133 and the \$500,000 single audit threshold for the expenditure of federal funds remain effective for fiscal years ending after December 31, 2003 and prior to December 26, 2015. Accordingly, for the year ended June 30, 2015, 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. Also by reference included in NJ Circular Letter 15-08-OMB, the \$500,000 single audit threshold for the expenditure of State of New Jersey financial assistance remains effective for the fiscal year ended June 30, 2015. Section III (POLICY) of NJ Circular Letter 15-08-OMB clarifies that 15-08-OMB is effective for fiscal years beginning after December 26, 2014. Accordingly, applicable to the fiscal year beginning July 1, 2014 and ending June 30, 2015, New Jersey school districts/charter schools that expend \$500,000 or more in State or federal financial assistance in this fiscal year must have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy.

NJ Circular Letter 15-08-OMB specifies that for the fiscal year beginning July 1, 2014 and ending June 30, 2015, recipients of federal grant, State grant or State aid funds that expend less than \$500,000 in federal or State financial assistance but expend \$100,000 or more in State and/or federal financial assistance within the fiscal year must have either a financial statement audit performed in accordance with *Government Auditing Standards August 2011 Revision*,

(Yellow Book), or a program specific audit performed in accordance with A-133 and/or the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and State policy.

*Government Auditing Standards August 2011 Revision*, (Yellow Book) established generally accepted government audit standards (GAGAS) and is available through the website:

<http://gao.gov/assets/590/587281.pdf>

Note that NJ OMB's guidance is that independent auditors should base the Circular Letter (CL) citation in their audit reports on the date that the audit field work begins. If the audit field work begins subsequent to the December 26, 2014 effective date of Circular Letter 15-08-OMB, then reference is made to Circular Letter 15-08-OMB. However, when audit field work began prior to the December 26, 2014 effective date of Circular Letter 15-08-OMB, reference the old Circular Letter 04-04-OMB.

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (referred to as the *Uniform Grant Guidance* throughout the remainder of this Audit Program) located in Title 2 of the Code of Federal Regulations (2 CFR Chapter I, and Chapter II, Parts 200, 215, 225 and 230), supersedes and combines the requirements of eight existing OMB Circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133) and is effective December 26, 2014. Accordingly, new and incrementally-funded federal awards issued on or after December 26, 2014 are subject to the *Uniform Grant Guidance*. The *Uniform Grant Guidance* raises the single audit expenditure threshold to \$750,000 for recipients of federal awards effective for any fiscal year period beginning after December 26, 2014 (i.e. first effective for fiscal year ending June 30, 2016).

### **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 five months (*N.J.S.A. 18A:23-1*) after the end of the school fiscal year. Accordingly, the deadline for submission of June 30, 2015 audits is Monday, December 7, 2015 (moved to Monday from Saturday). The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts/charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

### **1. The CAFR**

The CAFR is the district's/charter school's/renaissance school project's official annual report. It should include all funds of the district/charter school/renaissance school project. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district/charter school/renaissance schools 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 or *Uniform Grant Guidance* effective December 26, 2014, and/or the reporting requirements under NJOMB Treasury Circular Letter 04-04 or 15-08, 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/charter school/renaissance school project as well as any additional statements, schedules, and disclosures required under the circumstances of the district/charter school/renaissance school project. The report must also include all

applicable single audit opinion letters prepared by the local school district's/charter school's/renaissance school project's auditor in the single audit section. Links to sample single audit letters and New Jersey specific reference are provided in Section III – Chapter 2 of *The Audit Program*.

## 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 N.J.S.A. 18A:23-9 and Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4.

## 3. **Audit Summary (Audsum)**

The Audit Summary (Audsum) is an electronic submission of audited data. Audsum is completed through a web application available (anticipated availability September 2015) to auditors through the DOE website at: <http://www.state.nj.us/education/finance/audsum/> and to schools through NJDOE Homeroom at: <http://homeroom.state.nj.us/>. First-time-user auditors must create a user name and password in order to complete their registration with the Audsum web application. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. If you need to be sent a reminder, of your user name and/or password, or change your user name and/or password please send a request to the Audsum email at: [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). User names and passwords will remain active until the auditor requests removal through an email request to [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). School auditors must annually request a PIN for each of their school district audit clients by emailing a PIN request to: [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). The auditor/user must then link the DOE assigned district PIN for the audit year to their user name and password in order to access Audsum screens for a client district. The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The school district auditor and the board secretary/business administrator are required to indicate their respective approval of the Audsum data through the electronic signature process available on the web application using the Data Finalize and Certify screen. The school district's board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (**December 7, 2015**). 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.**

Transmission of the reporting package to the OFAC CAFR Repository is mandatory for year end June 30, 2015. The OFAC CAFR Repository may be accessed through NJDOE Homeroom at <http://homeroom.state.nj.us/>. 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 or the *Uniform Grant Guidance* 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/charter school/renaissance school project is required. In



conformity with the federal due date, the Federal Data Collection Form (SF-SAC) may be submitted to the New Jersey Department of Education within 30 days after the audit report is filed with the district board of education (including for renaissance school projects) or charter school board of trustees. Accordingly, associated audit items and the upload of audit files transmitted to the OFAC CAFR Repository may be submitted on time without including the archived copy of the SF-SAC. When available, and in accordance with the federal due date, the archived copy of the SF-SAC must be uploaded to the OFAC CAFR Repository.

As of January 2, 2015, The OMB requires all PDF uploads of the A-133 reporting package submitted to the Federal Audit Clearinghouse to be text-searchable, unlocked and unencrypted. Information about the federal submission requirements can be found at <https://harvester.census.gov/facweb/default.aspx/>. Consistent with the submission requirements established by the Federal Audit Clearinghouse (FAC) effective for the June 30, 2015 audit, New Jersey now also requires all audit file submissions to the CAFR repository be unlocked, unencrypted, text-searchable PDF files with standard audit finding reference numbers in sequential format (e.g. 2015-001 through 2015-999).

USOMB Circular A-133 and/or the *Uniform Grant Guidance* and NJOMB Circular Letter 04-04 and/or Circular Letter 15-08 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 Auditor's Management Report (AMR) must include all findings, including any items contained in the Schedule of Findings and Questioned Costs and the Legal or Regulatory Requirements section of the Auditor's Report.

## OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

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

The financial statements are the responsibility of the board of education's/board of trustee's management. AU-C Section 220 of the *Clarified Statements on Auditing Standards* issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) addresses auditor independence as part of quality control for an engagement conducted in accordance with generally accepted auditing standards. General Accounting Office (GAO) *Government Auditing Standards (Yellow Book Rev. 2011)* paragraphs 3.02 through 3.59 contain the independence standards that comprise the Generally Accepted Governmental Auditing Standards (GAGAS). Paragraph 3.40 addresses non-audit activities such as financial statement preparation, modified accrual to accrual conversions, and other non-audit services provided to an audit client. Those non-audit activities must be evaluated using the conceptual framework provided in paragraph 3.46.

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00220.pdf>

<http://www.gao.gov/assets/590/587281.pdf>

Districts/charter schools should reference the NJ Department of Education (NJDOE) website at <http://www.state.nj.us/education/finance/fp/cafr/> (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/charter school/renaissance school project staff. Please be aware that those illustrations may not be in conformity with recent GASB Statements. 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 requires that each governmental fund be treated as a major fund in the fund statements for GASBS 34 presentation. Questions relating to the preparation of NJ school district/charter school/ renaissance school project 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/charter school/ renaissance school project, 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 GAAP, this section is used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the school district/charter school/ renaissance school project and information useful to the reader to evaluate the district’s/charter school’s financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR.

**Financial Section** – This section includes the: 1) independent auditor’s report, 2) Management’s Discussion and Analysis (MD&A), 3) basic financial statements including the district/charter school/ renaissance school project -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, and 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/charter school/renaissance school project and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. Sample schedules under GASB Statement No. 44 (GASBS 44) and guidance for preparing the schedules can be found on the NJDOE web site <http://www.state.nj.us/education/finance/fp/cafr/> (click on CAFR). The Outline of the CAFR reflects these revisions. Statistical information to assist districts/charter schools and auditors in preparing this section is posted on that web site (click on Audit Information, and then 2014-15 Audit Program).

Charter schools are required to calculate and report financial performance indicators in the statistical data section of the CAFR (refer to page III-3.18 of this Audit Program). In July 2012, the New Jersey Department of Education (NJDOE) released the Performance Framework. This framework sets the academic, organizational and fiscal standards by which all New Jersey charter schools will be evaluated, informing the Department of Education and individual school officials about school performance and sustainability.

The Financial Performance Framework section was designed as a starting point for the NJDOE to assess the financial health and viability of charter schools in New Jersey. The Framework, containing both near term and sustainability indicators, is a monitoring tool that provides the NJDOE with key data that summarizes a charter school’s current financial health, while taking into account the school’s financial trends over a period of three years. Near term indicators provide an understanding of a school’s financial picture in the upcoming school year, while sustainability indicators depict a school’s financial viability over time. In total, eight different measures provide a snapshot of a school’s near term financial health, historic trends, and future viability; this allows the NJDOE to proactively address areas of concern. The Performance Framework can be accessed at the NJDOE web site <http://www.state.nj.us/education/chartsch/PerformanceFramework.pdf>.

**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

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costs, and a summary schedule of prior audit findings. This information is required by OMB Circular A-133 (*Uniform Grant Guidance*) and New Jersey OMB Circular Letters 15-08 and 04-04.

## OUTLINE OF CAFR

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Consultants and Advisors

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