

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, charter school, renaissance school project, 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.

A school district board of education, charter school/renaissance school project board of trustees, should refer to *N.J.A.C.* 6A:23A-16.2(i)(1), for regulations on obtaining audit firm peer reviews. The code requires that schools engage only licensed public school accountants who have had a peer review performed in accordance with *Government Auditing Standards, (Yellow Book)* and those schools obtain a copy of the audit firm's peer review and letter of comment. The board of education or, board of trustees, is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally, when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

Government Auditing Standards December 2011 Revision (The Yellow Book) is applicable for financial audits of periods ending on or after December 15, 2012. The 2011 revision updates the independence and financial audit standards. *The 2011 Yellow Book* is available in electronic format at the Government Accountability Office (GAO) website <http://gao.gov/assets/590/587281.pdf>. Printed versions of the December 2011 Yellow Book can be ordered through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free. Guidelines for audits of federal awards include the requirement that generally accepted government auditing standards (GAGAS) be followed when a Single Audit is required (See Section II-SA of this Audit Program for further information on Single Audits).

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 may be dependent upon the amount of time required to complete the audit, the auditor should not perform routine office work. School board business personnel are expected to perform certain actions and have certain documents ready in advance of the audit. See Section III-6 for a copy of the Board Secretary/Treasurer Checklist. The Auditor Questionnaire incorporates those actions and documents listed in the Board Secretary/Treasurer Questionnaire. Irregularities or errors discovered through the review of responses to questions in the Auditor Questionnaire must be covered by a comment and recommendation in the Auditor's Management Report.

Scope of Audit

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

1. General Fund (including Fund 15 for district required to use school-based budgeting, and fund 19 – Community Development Block Grant, where applicable)
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds [does not apply to charter schools/renaissance school projects]
5. Permanent Funds
6. Enterprise Funds and Internal Service Funds
7. Private Purpose Trust and Agency Funds
8. Student Activity Funds

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Auditors should consider the materiality of closely related organizations such as an education foundation or booster club, when determining whether to discretely present the statements of that organization in the district's/charter school's/renaissance school project CAFR as a component unit. Paragraph 6 of GASBS 39 states that, "It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity."

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

Responsibility for the preparation of the CAFR rests with the management of the school district, charter school, and renaissance school project. A sample CAFR is available on the website <http://www.nj.gov/education/finance/fp/cafr/>. Sample schedules that are specific to school districts required to use school-based budgeting and instructions for preparing those schedules are also available on this CAFR website.

The Audit Summary (Audsum) is an electronic submission of audited data must be completed through the DOE's web application. Auditors access Audsum through the DOE website at <http://www.state.nj.us/education/finance/audsum/>. Schools access Audsum through NJDOE Homeroom at <http://homeroom.state.nj.us/>. School district, charter school, renaissance school project, auditors must request a unique PIN for each of their school audit clients by emailing a PIN request to audsum@doe.state.nj.us. Each auditor/CPA user will create a user name and password when registering with the Audsum website as a first time user. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. The user name and password will remain active unless the auditor requests removal (or change) by emailing Audsum at audsum@doe.state.nj.us. If you need an email reminder of your user name and/or password, please send a request to the Audsum email at audsum@doe.state.nj.us. The auditor/user must then link the assigned school district, charter school, renaissance school project, PIN for the year under audit to their user name and password in order to access Audsum screens for a school client. 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 auditor and the board secretary/business administrator are required to indicate their respective approval of the entered Audsum data through the electronic signature process available on the Data Finalize and Certify screen. The school's board secretary/business administrator is responsible for the submission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2017).

The auditor's responsibility is to perform an audit for rendering an opinion on the fairness of the basic financial statements. The audit is to be performed in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing

Standards, issued by the Comptroller General of the United States; the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996; USOMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*(2013); NJOMB Circular Letter 15-08-OMB; and audit requirements as prescribed by the State of New Jersey, Department of Education, Office of School Finance. 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 school district, charter school, and renaissance school project. See Section II-SA for required submission of reports.

Community Disaster Loans/Community Development Block Grants:

For the 2016-17 school year, only one district received CDL revenue and no districts were eligible for the CDBG funds. This guidance is included for reference only. The department provided school districts with budgetary guidance that Community Disaster Loans (CDL) are recorded as actual receipts of loan proceeds in "Other Financing Sources" account number 10-5XXX and line 700 of Audsum. Appropriations and expenditures are recorded and reported in fund 11 – general fund. School districts received budgetary guidance to record Community Block Development Grant (CDBG) revenue in fund 19, account 19-4526 "FEMA CDBG", and Audsum line 565. Districts budgeted appropriations in fund 19 in the general fund. Fund 19 was combined with general fund (11, 12, 13) to calculate total planned general fund appropriations. Actual expenditures of CDBG must be reported separately in fund 19 (sub-fund of the general fund) in the Board Secretary Report and in the CAFR. Continuing guidance for 2016-17, is that school districts must report CDBG appropriations and expenditures separately by using a subsidiary schedule to the C-1 *General Fund Budgetary Comparison Schedule; C-1b CDBG budgetary Comparison Schedule* or by clearly identifying CDBG appropriations and expenditures at the bottom of the C-1 prior to the calculation of total general fund expenditures. Combined general fund (funds 11, 12, 13, and 19) budgetary expenditures from the C-1 are entered into Audsum.

Risk Assessment/Internal Controls

Clarified Statements on Auditing Standards (SASs) Nos. 122-131 were issued by the Auditing Standards Board. The Auditing Standards Board (ASB) has redrafted all of the auditing sections in Codification of Statements on Auditing Standards (contained in AICPA Professional Standards). These sections reflect the ASB's established clarity drafting conventions designed to make the standards easier to read, understand, and apply. As part of the clarification of the SASs, the AU section numbers as designated by SAS Nos. 1–121 were recodified and "AU-C" was selected as an identifier in order to avoid confusion with references to superseded "AU" sections. School auditors are encouraged to consult AU-C exhibit A on the AICPA website at:

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-ExhibitA.pdf> for a list that cross-references AU-C sections designated by SAS No. 122 to AU sections.

The clarified standards are available on the AICPA website at: <http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx>

The 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. Treasury Circular Letter 15-08-OMB maintains that recipients that expend less than \$750,000 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 Act, Amendments, Subpart F – Audit Requirements (of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) and State policy.

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* section 200.61 defines internal control as a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of reporting for internal and external use; and
- (3) Compliance with applicable laws and regulations.

Section 200.62 provides a specific definition for “Internal Control over Compliance Requirements for Federal Awards.

Section 200.514 (c) Scope of Audit, *Internal Control of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* provides (1) The compliance supplement provides guidance on internal controls over Federal programs based upon the guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2) In addition to the requirements of GAGAS, the auditor must perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs. (3) Except as provided in paragraph (c)(4) of this section, the auditor must: (i) Plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and (ii) Perform testing of internal control as planned in paragraph (c)(3)(i) of this section. (4) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(3) of this section are not required for those compliance requirements. However, the auditor must report a significant deficiency or material weakness in accordance with §200.516 Audit findings, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

Section 200.514 further states at *Compliance* (d)(1)- “In addition to the requirements of GAGAS - the auditor must determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs.” At (d) (4) “The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.”

Significant deficiencies or material weaknesses must be communicated to the board of education/board of trustees/board of directors must be followed up with a corrective action plan prepared by the board. The increased understanding of the audited school district, charter school, renaissance school project, or EIRC internal controls will also enhance management’s efficiency and effectiveness.

The *Yellow Book*, paragraph 4.19, requires that when providing an opinion or a disclaimer on financial statements, auditors should also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. Auditors report on internal control and compliance, regardless of whether or not they identify internal control deficiencies or instances of noncompliance.

The AICPA's Auditing Standards Board (ASB) completed the Clarity Project with the issuance of SAS number 128, *Using the Work of Internal Auditors*, in February 2014. Auditors are encouraged to obtain information regarding each clarity statement (SAS No. 122 through SAS No. 128) from the AICPA website at:

<http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx>

School District Fiscal Accountability Act (*N.J.S.A. 18A:7A-54 et seq.*)

Conditions for the Receipt of State Aid (*N.J.A.C. 6A:23A 6.1 et seq.*)

Financial Operations of Charter Schools/Renaissance School Projects (*N.J.A.C. 6A:23A 22.1 et seq.*)

State Aid Calculations and Aid Adjustments for Charter Schools (*N.J.A.C. 6A:23A 15.1 et seq.*)

Renaissance School Project Revenue Received from Renaissance School District (*N.J.S.A. 18A:36C-7 e.*; *Contracts and Operations N.J.A.C. 6A:31-1.1 et. seq.*; and *Financial Operations N.J.A.C. 6A:23A-22.1 et. seq.*)

N.J.S.A. 18A:7A-54 et seq. is cited as the “School District Fiscal Accountability Act” and defines that boards of education and administration are responsible for developing internal controls, policies, and procedures and for maintaining a strong internal control environment. District auditors should be aware of the rules and regulations and consider the risk of noncompliance when developing and implementing procedures to test internal controls and detailed tests of transactions.

N.J.A.C. 6A:23A-6.1 et seq. defines the conditions for the receipt of state aid and requires districts to document the performance of certain operational efficiency tests:

- Examine, no less than once every three years, all available group options for every insurance policy held by the district, including any self-insurance plan administered by the New Jersey School Boards Association Insurance Group on behalf of districts, and participate in the most cost effective plans. (*N.J.A.C. 6A:23A-6.1(b)1*)
- Take steps to maximize participation in the federal Universal Service Program (E-rate) and the ACT telecommunications program offered through the New Jersey Association of School Business Officials. (*N.J.A.C. 6A:23A-6.1(b)2*)
- Participate in the Alliance for Competitive Energy Services (ACES) energy program offered through the NJ School Boards Association unless the district can demonstrate that it receives the goods or services at a cost less than or equal to the cost achieved by participants in the program, (*N.J.A.C. 6A:23A-6.1(b)3*)
- Take appropriate steps to maximize the district’s participation in the Special Education Medicaid Initiative (SEMI) Program, pursuant to *N.J.A.C. 6A:23A-5.3*; *N.J.A.C. 6A:23A-6.1(b)4*) and
- Refinance all outstanding debt for which a three percent net present value savings threshold is achievable. (*N.J.A.C. 6A:23A-6.1(b)5*)

N.J.A.C. 6A:23A-6.4 requires that the district’s internal control policies promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies and comply with law and regulation as detailed at *N.J.A.C. 6A:23A-6.5* through 6.13. A brief overview of the control requirements and policies follows:

- Standard operating procedures (SOPs) for business functions. Implementation date December 31, 2009. (*N.J.A.C. 6A:23A-6.6*)
- Financial and human resource management systems (larger districts); access controls. Implementation complete by the 2010-11 school year. (*N.J.A.C. 6A:23A-6.7*)
- Personnel tracking and accounting system (PCR). Implementation fully complete by December 31, 2009. (*N.J.A.C. 6A:23A-6.8*)
- Facilities maintenance and repair scheduling and accounting work order system. Districts with three or more district buildings were to fully implement an automated work order system by July 1, 2010 (*N.J.A.C. 6A:23A-6.9*)
- Approval of amounts paid in excess of approved purchase orders; board policy (*N.J.A.C. 6A:23A-6.10*)
- Vehicle tracking, maintenance and accounting; board policy (*N.J.A.C. 6A:23A-6.11*)

- District vehicle assignment and use policy (*N.J.A.C. 6A:23A-6.12*)
- Board travel policy (*N.J.A.C. 6A:23A-6.13*)

Other audit considerations for school district auditors include, but are not limited to:

- *N.J.S.A. 18A:7A-55*, effective April 2006, provides for the appointment of a state monitor in schools that met specific circumstances and established the oversight duties of such monitors. Circumstances include an adverse or qualified audit opinion, repeat audit findings, material weaknesses and late submission of the audit. Communication of such issues in the audit reports is essential for the department to implement this statute.
- *N.J.S.A. 18A:7A-57*, effective April 2006, requires a forensic audit by the Office of the State Auditor if a district has a year-end general fund deficit and also meets one of the criteria for a state monitor. Communication and proper reporting by auditors is necessary for the department to implement this statute.
- *N.J.S.A. 18A:17-14.4* requires the school business administrator, or any other person designated by the board of education, to certify through the filing of E-CERT1 with the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. (Note: E-CERT is not applicable to charter schools or to renaissance school projects). Where there is a shared service agreement for superintendents of schools, assistant superintendents of schools and/or school business administrator, the school district that is the lead district employer responsible for all payroll-related obligations including the issuance of the W-2 for the individual is responsible for completing the payroll certification E-CERT1) to the Department of Treasury. E-CERT1 is available from Treasury at:
http://www.state.nj.us/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf
- *N.J.S.A. 18A:23-2.1* requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies with federal and state laws and regulations regarding the compensation reported. Auditors must include testing of payroll. See the State Aid/Compliance Supplement for suggested audit procedures and links for payroll tax related guidance.
- *N.J.S.A. 18A:7F-41*, effective April 2007, provides for two reserves of fund balance, the current expense emergency reserve and the debt service reserve account. This section also expanded the authority at year-end to transfer funds into a new or existing maintenance or capital reserve account. Regulations on the reserve accounts provide that such transfer resolution be adopted no earlier than June 1 and no later than June 30 of the respective school year (*N.J.A.C. 6A:23A-14.1 et seq.*). The reserves are to be held in accordance with GAAP and subject to annual audit. Interest income or capital gains become part of the reserve. See Section II-10 for further discussion of capital reserve, maintenance reserve, and current expense emergency reserve. See Section II—40 for further discussion of the debt service reserve.
- P.L.2015, c.46 effective May 7, 2015 amended *N.J.S.A. 18A:7F-41* for general fund legal reserve available to districts that receive federal Impact Aid. Accordingly, the department has added new reserve accounts to Audsum to report the year-end end balance of federal Impact Aid Reserve – general fund and federal Impact Aid Reserve - capital. A board of education (or a board of school estimate) may through the adoption of a board resolution, appropriate federal Impact Aid funds to establish or supplement the reserve accounts in the district’s annual budget, or through a transfer by a two-thirds affirmative vote of the authorized membership of the board between June 1 and June 30. The law specifies that cumulative transfers to the impact aid reserve in a given fiscal year shall not exceed the total amount of federal impact aid received during that same fiscal year. Withdrawal may occur through the budget process or by board resolution during the fiscal year in any subsequent school year. The board, at its discretion, may use the withdrawn funds to finance the district’s general fund (general fund Impact Aid Reserve) or to finance school

facilities projects (capital Impact Aid Reserve), in a manner consistent with federal law. The total yearend balance of funds on deposit in either general fund Impact Aid or capital Impact Aid reserve account shall not be limited. As stated above, the amount of the cumulative annual (transfer(s)) deposit(s) to either reserve are categorically limited by the amount of federal Impact Aid received during the fiscal year of deposit to those reserves. All reserve accounts shall be established and held in accordance with GAAP and shall be subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required; however, a separate identity for each reserve account shall be maintained.

- *N.J.A.C. 6A:23A-5.2(a)(3)* require school districts with legal costs that exceed 130 percent of the statewide average per pupil amount to establish specific internal control procedures for the reduction of costs or to provide evidence that such procedures would not result in a reduction of costs. Districts that have audited June 30, 2016 legal costs that exceed 130% of the 2015-16 audit statewide average as published in the *2017 Taxpayer Guide to Education Spending for their operating type*, must have a resolution (or memo) adopted to recognize the occurrence and to formally adopt the controls provided in *N.J.A.C. 6A:23A-5.2(a)(3)*. To provide the school district with adequate implementation time, the auditor must through inquiry, or other appropriate audit technique, verify evidence of a 2016-17 resolution (or memo) stating the board's intention to implement the controls specified in code and the aforementioned resolution, effective for fiscal year 2017-18. If such controls are not established, the district must document and have available for audit, evidence that such procedures would not result in a reduction of costs. The *2017 Taxpayer Guide to Education Spending* is available on the DOE website at: <http://www.nj.gov/education/guide/2017/>.

The 2015-16 Budget Guidelines, page 157, provides that the 2015-16 budget software includes a warning edit where the districts 2014-15 budgeted per pupil legal costs, revised as of February 1, 2015, exceeds 130 percent of the statewide average per pupil budget legal costs for the district's operating type as published in the 2015 Taxpayer Guide to Education Spending. School districts that received this warning edit in the 2015-16 software, may have utilized internal procedures during the time remaining in the 2015-16 fiscal year to control spending. However, where district imposed spending controls were not sufficient to control legal costs, the school district may have ended the June 30, 2015 year with actual audited legal costs above 130 percent of the statewide per pupil 2014-15 audited average for the district's operating type as published in the 2016 *Taxpayers Guide to Education Spending*. Those school districts were provided planning time until the 2016-17 fiscal year (the year under audit) for the actual implementation of the required regulatory procedures. Where this has occurred, the auditor engaged for 2016-17 must verify implementation of the regulatory control procedures during 2016-17, unless evidence is provided by the school district to document the regulatory procedures would not result in a reduction of costs.

<http://www.state.nj.us/education/guide/2016/>

- N.J.S.A. 52:14-15h allows 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.
- Effective May 1, 2017, N.J.A.C. 6A:23A-1.2 was revised to add definitions for "additional administrative position salary increment", "additional school district salary increment" and "high school salary increment" impacting determination of maximum salaries for superintendents.

Renaissance School Projects:

N.J.S.A. 18A:36C-7 specifies that in addition 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) and N.J.A.C. 6A:23A-22.5.

N.J.A.C. 6A:23A-22 titled Financial Operations of Charter Schools, requires that charter schools’ and renaissance school project’s internal control policies promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies and comply with law and regulation as detailed at *N.J.A.C. 6A:23A-22.1* through 22.15. A brief overview of the control requirements and policies follows:

- Bookkeeping and accounting for charter schools and renaissance school projects (*N.J.A.C. 6A:23A-22.2*)
- Certification (*N.J.A.C. 6A:23A-22.3*)
- Financial requirements (*N.J.A.C. 6A:23A-22.4*)
- Public school contracts law (*N.J.A.C. 6A:23A-2.5*) 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) and N.J.A.C. 6A:23A-22.5.
- Public relations and professional services; board policies; efficiency (*N.J.A.C. 6A:23A-22.6*)
- Charter school and renaissance school project response to Office of Fiscal Accountability and Compliance (OFAC) investigation report (*N.J.A.C. 6A:23A-22.7*)
- Verification of payroll check distribution (*N.J.A.C. 6A:23A-22.8*)
- Board of trustees and renaissance school project governing board expenditures for non-employee activities, meals and refreshments (*N.J.A.C. 6A:23A-22.9*)
- Nepotism policy (*N.J.A.C. 6A:23A-22.10*)
- Contributions to board members and contract awards (*N.J.A.C. 6A:23A-22.11*)
- Internal controls (*N.J.A.C. 6A:23A-22.12*)
- Segregation of duties; organization structure (*N.J.A.C. 6A:23A-22.13*)
- Standard operating procedures (SOPs) for business functions (*N.J.A.C. 6A:23A-22.14*)
- Approval of amounts paid in excess of approved purchase orders; board policy (N.J.A.C. 6A:23A-22.15)
- *N.J.A.C. 6A:23A-22.6* requires charter schools and renaissance school projects with legal costs that exceed 130 percent of the statewide average per pupil amount to establish specific internal control procedures for the reduction of costs or to provide evidence that such procedures would not result in a reduction of costs. Charter schools and renaissance school projects that reported audited June 30, 2016 legal costs which exceed 130% of the audited statewide per pupil 2015-16 average as published in the 2017 Taxpayer Guide to Education Spending, must have a resolution (or memo) adopted to recognize the occurrence and to formally adopt the controls provided in *N.J.A.C. 6A:23A-5.2(a)(3)* and *N.J.A.C. 6A:23A-22.6*. Where excess spending has occurred during 2015-16, charter schools and renaissance school projects were provided planning time for the implementation of the required regulatory procedures until fiscal year 2016-17 (the year under audit). Accordingly, auditors engaged for 2016-17, must verify evidence of implementation of the controls specified in code effective for fiscal year 2017-18. If such controls are not established, the charter school or renaissance school project must document and have available for audit, evidence that such procedures would not result in a reduction of costs. The 2017 Taxpayer Guide to Education Spending is available on the DOE website at: <http://www.state.nj.us/education/guide/2017/>

Additional cost saving programs encouraged for use by charter schools and renaissance schools include, but are not limited to:

- Take appropriate steps to maximize the participation in the Special Education Medicaid Initiative (SEMI) Program, pursuant to N.J.S.A. 18A:55-3 *N.J.A.C. 6A:23A-5.3; N.J.A.C. 6A:23A-6.1(b)4*
- Participate in the Alliance for Competitive Energy Services (ACES) energy program offered through the NJ School Boards Association unless the charter school or renaissance school project can demonstrate that it receives the goods or services at a cost less than or equal to the cost achieved by participants in the program, (*N.J.A.C. 6A:23A-6.1(b)3*)
- Participate in the Alliance for Competitive Telecommunications (ACT) or document why participation was not fiscally prudent (*N.J.A.C. 6A:23A-6.1(b)3*);
- Participate in the New Jersey School Boards Association Insurance Group or a joint insurance fund or document why participation was not fiscally prudent (*N.J.A.C. 6A:23A-6.1(b)3*);
- Submit all claims for reimbursable costs under the federal E-rate program for encouraging the use of the internet

N.J.A.C. 6A:23A-15.1 describes the policies for enrollment in a charter school, the calculation of payments to charter schools and private school placement of charter school students and are detailed at *N.J.A.C. 6A:23A-15.1* through *15.4*

A brief overview of the requirements and policies follows:

- Per pupil calculations, notification and caps (*N.J.A.C. 6A:23A-15.2*)
- Enrollment counts, payment process and aid adjustments (*N.J.A.C. 6A:23A-15.3*)
- Procedures for private school placements by charter schools (*N.J.A.C. 6A:23A-15.4*)

Renaissance school project auditors must be aware that renaissance school projects receive revenue directly from the Renaissance School District (N.J.S.A. 18A:36C-7 e.). Renaissance school projects function under the regulations at *N.J.A.C. 6A:31-1.1* et. seq. Renaissance school project financial operations are subject to the same regulations as charter schools (*N.J.A.C. 6A:23A-22.1* et. seq.), with limited exceptions detailed throughout this Audit Program.

In addition to those requirements referenced above, a brief overview of several other requirements applicable to renaissance school projects follows:

- N.J.A.C. 6A:31-4.1 and 4.2 contain the regulations for student recruitment and enrollment by the renaissance school project.
- *N.J.S.A. 18A:23-2.1*, requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies with federal and state laws and regulations regarding the compensation reported. Auditors must include testing of payroll. See the State Aid/Compliance Supplement for suggested audit procedures and links for payroll tax related guidance.

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/charter schools/renaissance school projects 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/charter school/renaissance school project 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/board of trustees of such school district/charter school/renaissance school project."

SECTION I – GENERAL COMPLIANCE
CHAPTER 2

MEETINGS AND MINUTES

Meetings of Public Bodies - The Sunshine Law

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

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

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

- a. A list of all employees, salaries and wages approved by the board.
- b. For school districts, the final approved budget upon which taxes were based and details of the public hearing on the budget. For charter schools /renaissance school projects the final board of trustees approved budget.
- c. Details of the annual organization meeting of the board, including the results of the election.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the secretary (Board Secretary's Report) and the treasurer (Treasurer's Report) (if the district/charter school /renaissance school project has a treasurer).
- f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.
- g. Full detail of budget transfers, including affirmative vote by two thirds of board for applicable transfers.
- h. Capital Improvement Authorizations, Proposals and/or Adoptions.
- i. Requests for Local Property Taxes.
- j. Required Board of Education/Board of Trustees Board, Policies required by statute or regulation (including but not limited to the following):
 - Travel and expense reimbursement
 - Public Relations and Professional Services
 - SEMI Reimbursement
 - Nepotism
 - Anti-Bullying – updated annually
 - Contributions and Contracts Awards
 - Policy on Exceeding Purchase Order Amounts

- Vehicle Tracking and Use
- Electronic Communications Between School Employees and Students

Minute Records

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

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

ASSA, CHARTER SCHOOL AID, RENAISSANCE SCHOOL PROJECT AID & SEMI & DRTRS

This guidance is applicable for testing of the October 14, 2016 student count.

APPLICATION FOR STATE SCHOOL AID (ASSA) – SCHOOL DISTRICTS ONLY

Overview

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

- 1) On-roll full and shared students (regular and special ed).
- 2) Private school for the disabled students.
- 3) Low income enrollment.
- 4) Low Income Limited English Proficient (LEP) students (kindergarten through 12).
- 5) Limited English Proficient (LEP) students (not low income- kindergarten through 12).

The Schedule of Audited Enrollments is included in the Auditor’s Management Report as a supplementary schedule and summarizes the results of testing the ASSA and the District Report of Transported Resident Students (DRTRS). Renaissance school project students are included in the school district ASSA and Schedule of Audited Enrollment in the “Reported on ASSA On Roll” column. Charter School students are not included in the “Reported on ASSA On Roll” column, but are included, when applicable, in the “Resident Low Income”, “Resident LEP Low Income”, and “Resident LEP NOT Low Income” columns of the Schedule of Audited Enrollments. A statement regarding the audit procedures performed on ASSA is also required in the Auditor’s Management Report including any items of noncompliance or negative comments along with the appropriate recommendation. Refer to Section III – Chapter 4 for an example of this schedule and auditor’s comment.

The Office of School Finance used the October 14, 2016 ASSA data in the calculation of 2017-18 state aid, and for other purposes such as calculation of School Choice Aid, and federal entitlement programs. Auditors should obtain a printout of the **March 2, 2017** DOE ASSA Summary prepared by the department and available through the district’s individual account on the DOE Homeroom page. This Summary reflects changes made prior to the final calculation of 2017-18 state aid.

Note that for the October 14, 2016 ASSA, school district students sent to a charter school are reported in the school district’s ASSA as enrolled in their resident district in the column headed, “Charter Schools”. Charter school students are not included in the column headed “On-Roll”. For additional information, refer to the 2017-18 Application for State School Aid Online Technical Manual, page **39**.

Choice program students were to be reported by the “choice district” on the ASSA. Choice districts in the Interdistrict Public School Choice Program were to enter data for those students in accordance with the 2017-18 Application for State School Aid Online Technical Manual, page **17**.

The School Funding Reform Act (SFRA) calculations for state aid required changes to the ASSA that were first effective for October 15, 2008. Since that time, special education students are reported as either

elementary (PreK-grade 5), middle school (grades 6-8), or high school (grades 9-12) students according to their grade level. Auditors must be aware that grade level or age classification must be verified as part of on roll – full/shared and private school testing.

The ASSA data collection includes screens for on-roll (excluding choice and charter), students sent, students received, students on-roll Choice, and applicable to regional school districts only – regional enrollment breakdown. The number of regular education and special education LEP students that qualify for free lunch are entered separately from those eligible for reduced lunch. LEP students who are not low income are entered in a separate column. The ASSA Summary printout (and the Schedule of Audited Enrollments) includes columns for Resident LEP Low Income and Resident LEP Not Low Income. Auditors should sample both categories and follow the directions in this chapter for the testing and reporting of low-income status as well as LEP eligibility. For LEP students classified as low-income status, the presence of a valid current year “Application for Free and Reduced Price Meals and Free Milk” is deemed to support the low-income status classification. For purposes of meals, these students should appear on the school nutrition program Master Eligibility Lists as “Free” or “Reduced” status. For students that attend a CEP (Community Eligibility Program) school and are classified as an LEP low-income student or a low-income student, a low-income determination must be supported by a 2016-17 New Jersey DOE Household Information Survey form as documentation in support of the classification.

In accordance with *N.J.A.C. 6A:32-8*, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records annually (school districts) or monthly (charter schools/renaissance school projects) and used in the reporting of year-end or monthly summaries to the Department of Education. Students are enrolled in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked. School districts must complete a set of ASSA workpapers that document the compilation of School Register data for the ASSA student count, and provide an audit trail for the auditor to use as a basis for testing. The department maintains information about the New Jersey School Register on the department’s website at: <http://www.nj.gov/education/finance/register/>.

School districts must also prepare written internal procedures that provide a description of the October 14, 2016 count process. Those procedures should describe how the count was taken, who was responsible for compiling the data and submitting the ASSA data, and the various personnel assigned responsibilities for collection of the data. The ASSA workpapers, original supporting documentation, and internal procedures must be maintained on file for a period of seven years.

Determining Sample Size

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

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

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

1. Sample Selection and Test Procedures - On Roll - Full/Shared Including Home Instruction -- At a minimum, at least one School Register from each enrollment category must be tested to verify that the number of students enrolled on October 14, 2016 agrees with the associated number reflected on the district's workpapers and on the ASSA.

- All Home Instruction students must be entered by name in the School Register with attendance code “7.” These students are included in the on-roll count only, and not as a separate category on the ASSA.
- On roll counts must include 3-year-old and 4-year-old “regular education” preschool students (not preschool disabled) from district School Registers in the appropriate ASSA lines. For “regular education” preschool (not preschool disabled) students free/reduced meals eligibility is not entered in the ASSA.
- Preschool disabled students are special education students with a measurable developmental impairment, which occurs in children between the ages of 3 and 5. These students must receive instruction for a minimum of 10.0 hours per week and are considered full-time students for state aid purposes. Preschool disabled students are reported as elementary – special education students in the ASSA and the district must also enter free/reduced price meal status in the ASSA.

Special Education Grade Level Tables

Special education students are reported by grade groupings – elementary, middle school, or high school. The IEP should be reviewed to determine that the student has been classified as special education. Auditors are to ensure that special education students are not counted twice as both graded and special education students.

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

Special education students who are graded (Resource Center) are reported based on the following grade level table:

<u>Grade Level (as of 10/15/16)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

Special education students who are un-graded (Self-Contained) are reported based on the following age based table:

<u>Age (as of 6/30/17)</u>	<u>School</u>
11 and under	Elementary School
12-14	Middle School
15-21	High School

2. Private Schools for the Disabled

Obtain the ASSA workpapers prepared by the district and verify that for each student listed there is a tuition contract with an approved Private School for the Disabled on file, which was in effect on October 14, 2016. Based on the total contracts the auditor should use the table to determine an appropriate sample size. The sample should be tested against private school tuition bills for October 2016 in order to determine that these pupils were in fact enrolled and that tuition was paid. The students will be identified by their initials and each student's number of enrolled days will be listed for the month. The per diem rate must be the same as the rate identified in the private school contract. This count may also include preschool disabled students placed in early childhood programs as per the provisions contained in *N.J.A.C. 6A:14-4.3(d)*. An appropriate tuition contract must be on file as well as supporting documentation for the tuition payment. Any unresolved differences must be identified as an audit exception. Special education students sent by a school district to private schools are not reported on the ASSA by tier. However, each student's placement must be supported by an appropriate IEP. Auditors must verify that private school enrollment shown on the Schedule of Audited Enrollments reflects only those pupils with a contract, adjusted for those pupils in the sample who were not properly reflected on the October bill.

3. Low-Income Enrollment on Roll – Full Time and Shared Time

Please refer to low-income enrollment guidance applicable to school districts, beginning on page I-3.13 of this Audit Program.

4. Low Income Limited English Proficient (LEP) students (kindergarten through 12).

Please refer to low-income LEP enrollment guidance applicable to school districts, beginning on page I-3.17 of this Audit Program.

5. Limited English Proficient (LEP) students (not low income- kindergarten through 12

Please refer to LEP enrollment section applicable to school districts, beginning on page I-3.17 of this Audit Program.

Note to school district auditor: If, after reviewing one School Register per category, the total sample size is less than that reflected on the table for the total population, additional School Registers must be tested until the appropriate sample size is achieved.

CHARTER SCHOOL AID – CHARTER SCHOOLS ONLY

In accordance with *N.J.A.C.* 6A:32-8, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records monthly and used in the reporting year-end monthly summaries to the Department of Education. Students are enrolled in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked.

In the School Register, school districts are required to identify charter school students who are resident in the district. Those students are reported to the Department through the resident school district's ASSA submission as "resident students" for purposes of calculating a school district's state aid. Data from the Charter School Enrollment system is prepopulated in the school district's ASSA.

The charter school receives funding pursuant to *N.J.S.A.* 18A:36A-12(b); the "school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the district an amount equal to 90% of the sum of the budget year equalization aid per pupil and the prebudget year general fund tax levy per pupil inflated by the CPI rate most recent to the calculation. In addition, the school district of residence shall pay directly to the charter school the security categorical aid attributable to the student and a percentage of the district's special education categorical aid equal to the percentage of the district's special education students enrolled in the charter school and, if applicable, 100% of preschool education aid." Pursuant to *N.J.S.A.* 18A:36A-12(d), first year charter school students who last attended non-public schools and students that were last home schooled (last school year) are funded by the state with direct payments to the charter school.

Auditors are required to design audit procedures to test revenue recognition in the charter school's accrual and modified accrual financial statements. Auditors are advised that Schedules of Payments required to be made by school districts to charter schools are available in the charter school homeroom page or by request made to the charter school. For 2016-17, three separate aid notices are calculated and posted on the homeroom page. The first notice is based on FY 16-17 projected enrollments and established the initial payment amounts. That notice is dated February 26, 2016. The second aid notice is dated December 19, 2016 and is based on average daily enrollment at October 14, 2016. The second notice adjusted payment amounts from December 2016 through the end of June 2017. The final aid notice, based on average daily enrollment on the last day of school, is dated June 27, 2017. The final notice is used to reconcile the payments made pursuant to the first and second aid notice with the aid calculated based upon the final average daily enrollment on the last day of school.

Auditor Note: The 2016-17 charter school aid revenue recognized is equal to the aid reflected on the final enrollment count notice referenced in the preceding paragraph. Auditors are required to determine whether the charter school has correctly reported revenues and any amount due to, or due from, school district(s). Those amounts are reported as a receivable or payable, without the right of offset.

Enrollment Counts and Student Characteristics – Charter Schools

Pursuant to *N.J.A.C. 6A:23A-15.1* et. seq. charter schools are required to conduct enrollment counts twice annually, on October 15 (to conform with the school district enrollment count date) and again on the last day of the school year. Each charter school is required to submit each of the two counts to the department through the live web-based Charter School Enrollment System (CHE), available through the NJ Homeroom website, for the purposes of determining average daily enrollment. Accurate maintenance of the enrollment system is vital so that the resident districts can rely on the accuracy of the payment schedules (refer to above section addressing charter school aid). Charter schools must complete the enrollment count submissions, which report the compilation of School Register data, for ultimate use in the final charter school aid calculation. The enrollment counts provide a source document for auditor verification of the enrollment component included in the calculation of a charter school's revenue. Charter schools follow the Charter School Enrollment System (CHE) submission process and are not required to submit an ASSA.

Charter schools are required to prepare written internal procedures providing a detailed description of the count process for the required enrollment count(s). The procedures should describe in detail the process for how the count(s) occurred, who was responsible for compiling the data, completing the enrollment count submission(s), and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information for correction in the count, if applicable. Note: The workpapers, original supporting documentation, and internal procedures must be maintained on file for a period of seven years.

Source documents related to the determination of student characteristics (e.g. Application for Free and Reduced Meals and Free Milk, Household Information Survey, workpapers listing bilingual education students) are obtained/determined by the charter school, are the responsibility of the charter school, must be maintained by the charter school, and copies of same provided to the student's school district of residence.

The auditor's Charter School Schedule of Audited Enrollments is included in the Auditors' Management Report as a supplementary schedule and is subject to the same auditing procedures applied in the examination of the charter school's basic financial statements.

School Register Sample Selection and Test Procedures for Audits of Charter Schools:

In accordance with *N.J.A.C. 6A:32-8*, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records monthly and reporting year-end monthly summaries to the Department of Education. Students enroll in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked throughout the subsequent years. The school district of residence must accurately track enrollment of charter school students in the school district's School Register and treat those students as resident students attending their home school for purposes of state aid.

In addition to student enrollments tracked through the School Register by the resident school district, (enrollment and) daily attendance or absence is tracked in a School Register by the charter school where the student is attending school. The charter school may maintain their School Register(s) in each classroom or in a designated central location for all classrooms. Attendance information must be updated

on a daily basis and ultimately summarized and reported to the department through the annual year-end School Register Summary data collection.

The charter school is responsible to ensure the attendance of those students enrolled in their school in accordance with *N.J.S.A.* 18A:38 et al. and with *N.J.A.C.* 6A:23A-15.1 et. seq. Charter school auditors should be aware of, and design audit procedures to test for compliance with the requirement that a student who has been absent consecutively for 10 school days for an unknown reason must be reported/recorded as a dropout, and the charter school must immediately notify the school district of this condition in writing.

School Register(s) or section(s) of Expanded School Register(s) must be maintained for each program type defined at *N.J.A.C.* 6A:32-8.1(e) as: Pre-k; K, grades 1-5; grades 6-8; grades 9-12; each preschool class for the disabled; each class for the disabled; shared-time classes for regular students; shared-time classes for students with disabilities; full-time bilingual education programs; vocational day programs; summer school programs). (Auditor's note: For example, where school facility houses students from grades four through eight, at a minimum, two separate sets of School Registers must be maintained; one set for grades 4 and 5, and a separate set for grades 6 through 8).

Testing must occur for each category of reporting included in the auditor's Schedule of Audited Enrollments as follows:

1. On-roll full and shared students - The auditor must include audit procedures to verify the total enrollments reported in the School Register(s) match the total enrollments reported in each of the Charter School Enrollment counts reported to the Department and verified by the resident district through the CHE software. School Registers must also be subject to audit procedures that include samples taken from each of the enrollment count dates (i.e. October 15, and the last day of school) that are designed to verify the accuracy of the School Register. Although every enrolled student is not sampled for each of the two counts, the charter school auditor must apply testing procedures to 100% of the student enrollment records at least once. This is accomplished by utilizing a "sampling without replacement" method. Once a student record has been randomly selected for testing in the October 15 enrollment count, that record is excluded from the sample pool for the subsequent (year-end) count. Utilizing this "non-replacement" method ensures that the auditor examines 100% of the charter school student records without duplication. For example, if total charter school enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample size must include the remaining 250 students (only). From a risk perspective, the auditor should pay particular attention to students that have either enrolled into, or transferred out of, the charter school during the school year to ensure that they are included in the testing, and that the enrolled days are accurate.

Note: Since student enrollment is a component in the calculation of charter school funding, auditors are required to be diligent in verifying the accuracy of the information. All discrepancies between the data reported in the Charter School Enrollment System (CHE), including the "Enrolled Days" for determination of the average daily enrollment (ADE), and the charter school supporting documentation, including but not limited to, student transfer cards, IEPs, Free and Reduced Lunch Applications, Household Income Survey Forms, etc. must be reported by the auditor as an audit finding and recommendation for improvement, with discrepancies reported in the auditor's Schedule of Audited Enrollments. Reported discrepancies may result in monetary adjustment. The additional documentation subject to audit supports the charter school's request for additional funding from the district of residence for classification of a student as LEP, low income, or special education are to be documented and reconciled..

2. Special Education or Speech Only Student Enrollments

Special education students are reported by grade groupings – elementary, middle school, or high school. The IEP should be reviewed to determine that the student has been classified as special education. Auditors are to ensure that special education students are not counted twice as both graded and special education students.

Charter school auditors must design audit tests to verify the existence of an IEP for 100% (may use sampling without replacement) of the student's recorded as Special Education or Speech Only in the School Register(s) and reported to the Department as Special Education or Speech Only. Speech Only students are those students whose only special education service received is speech language services as defined in N.J.A.C. 6A:14-3.6. For all Special Education students, the auditor must review the student's IEP to verify the classification as Special Education. Note: the Speech Only IEP should be reviewed to determine that the student has been classified as Speech Only.

In respect of the confidentiality provision involving a student's IEP, the Department recommends that the auditor not make photocopies of IEP's chosen as part of the test sample. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

3. Private Schools for the Disabled - Charter Schools

Pursuant to N.J.S.A.18A:36A-11(b) a charter school shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

Pursuant to N.J.S.A.18A:36A-11(c) within 15 days of the signing of the individualized education plan, a charter school shall provide notice to the resident district of any individualized education plan which results in a private day or residential placement. The resident district may challenge the placement within 30 days in accordance with the procedures established by law.

Auditors are required to inquire as to the status of any special education student in outside placements. The costs for educating these students are borne by the school district of residence. If a charter school student has been placed in a Private School for the Disabled or a residential program, the charter school auditor must: 1. Verify that the IEP requires the private placement 2. Verify that the code assigned in the student record in the Charter School Enrollment System is "Attending a Private School" and that the related Average Daily Enrollment (ADE) is zero.

4. Low-Income Students

Please refer to low-income enrollment guidance applicable to charter schools beginning on page I-3.13 of this Audit Program.

5. Low Income Limited English Proficient (LEP) Students (kindergarten through 12).

Please refer to low-income LEP enrollment guidance applicable to charter schools beginning on page I-3.17 of this Audit Program.

6. Limited English Proficient (LEP) Students (not low income- kindergarten through 12

Please refer to LEP enrollment section applicable to charter schools beginning on page I-3.17 of this Audit Program.

7. County Vocational School Students

For charter school students in grades 9 to 12 that are recorded as shared with a county vocational school program in the School Register, auditors are required to verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment (ADE). The Charter School Enrollment System record of students who were enrolled in the charter school for the entire school year, and during that same time period were also attending a vocational program, should reflect an ADE of 0.5. This ADE would be prorated accordingly for students who were only enrolled in the charter school for part of the school year. Any exceptions should be noted in the Schedule of Audited Enrollments and included as a finding and recommendation for improvement.

8. First Year Non-Public Students

Pursuant to *N.J.S.A. 18A:36A-12(d)*, first year charter school students who last attended non-public schools and students that were last home schooled (last school year) are funded by the state with direct payments to the charter school.

RENAISSANCE SCHOOL AID– RENASSAINCE SCHOOL PROJECTS

Pursuant to *N.J.S.A. 18A: 36C-7e*, the renaissance school district in which a renaissance school project is located shall pay to the nonprofit entity in 12 equal monthly installments an amount per pupil equal to 95% of the district's per pupil expenditure. In addition, the 12 monthly installments shall include the security categorical aid attributable to the student, a percentage of the district's special education categorical aid equal to the percentage of the district's special education students enrolled in the renaissance school project, and if applicable 100% of the preschool education aid. The district shall also pay directly to the renaissance school project any federal funds attributable to the student.

Pursuant to *N.J.S.A. 18A:36C-7.1*, if after approval, a renaissance school project is located in a temporary facility pending completion of the newly constructed facility or substantially reconstructed facility, the renaissance school project shall be funded pursuant to *N.J.S.A.36A-12*, until it has obtained final site plan approval for the newly constructed facility or begun construction on the facility to be substantially reconstructed, provided that a renaissance school project shall not be located in a temporary facility for more than three years.

Auditors must verify that revenue/aid recognition in the modified accrual and accrual financial statements is in accordance with the above referenced statutes. The 2016-17 Renaissance School Aid Calculation template is available from the resident school district [FY17 RENAISSANCE FUNDING 0680.xlsx](#) must verify revenue recognized by the renaissance school project against the Renaissance School Project Payment Schedule received directly from the renaissance school district or from the department.

Enrollment Counts and Student Characteristics– Renaissance School Projects “Renaissance Enrollment Report”**School Register - Attendance - Renaissance School Projects****Background:**

In accordance with *N.J.A.C. 6A:32-8*, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records monthly and reporting year-end monthly summaries to the Department of Education. Students enroll in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked throughout the subsequent years. The school district of residence must accurately track enrollment of renaissance school project students in the school register and treat them as resident students for purposes of state aid.

Daily attendance or absence is tracked in a School Register by the renaissance school project where the student is attending school. The renaissance school project may maintain School Register(s) in each classroom or in a designated central location for all classrooms. Attendance information must be updated on a daily basis, and ultimately summarized and reported to the department through the annual year-end School Register Summary data collection.

The renaissance school project is responsible to ensure the attendance of those students enrolled in their school in accordance with *N.J.S.A. 18A:38 et al.* and with *N.J.A.C. 6A:23A-15.1 et. seq.* Renaissance school project auditors should be aware of the requirement, and design testing to verify, that a student who has been absent 10 days for an unknown reason must be reported/recorded as a dropout and the renaissance school project must immediately notify the school district of this condition in writing. The auditor is required to test for appropriateness and accuracy the renaissance school project School Registers – (Attendance), School Register Summary – (Attendance), and related workpapers and supporting documentation, for all students transferred to the renaissance school project by the renaissance school district.

Renaissance school projects conduct an annual student enrollment count as of October 15th, (October 14, 2016) which establishes the number of on-roll students in the renaissance school project on October 15th. Prior to the student enrollment count, renaissance school projects are required to prepare written internal procedures detailing the count process. Specifically, those procedures should describe how the count will be taken; identify who will be responsible for compiling the data; identify who will be responsible for completing the enrollment count submission; provide a detailed account of the various assigned responsibilities for collection of the data; and describe the follow-up procedures to be applied to correct any erroneous student information. The workpapers, original supporting documentation and internal procedures should be maintained on file by the renaissance school project for a period of seven years.

Renaissance school projects do not submit an ASSA, rather, their data is included with their resident school district data. For their October 14, 2016 student count, renaissance school projects were required to certify their student enrollment count through the reporting requirements of NJSMART. NJ SMART is the source of the required data necessary to prepare the 2016-17 Renaissance Aid Calculation and Payment Schedules. The renaissance school project auditor must design audit procedures to verify the accuracy of the School Register with the enrollment reported in the certified NJSMART report. A final (school year-end) student enrollment count is not required. However, a count may be conducted if deemed necessary by either the renaissance school project or the renaissance school district.

School Register(s) or section(s) of Expanded School Register(s) must be maintained for each program type defined at *N.J.A.C. 6A:32-8.1(e)* as: Pre-k; K, grades 1-5; grades 6-8; grades 9-12; each preschool class for the disabled; each class for the disabled; shared-time classes for regular students; shared-time classes for students with disabilities; full-time bilingual education programs; vocational day programs; summer school programs). (Auditor's note: For example, where a school facility houses students from grades four through eight, at a minimum, two separate sets of School Registers must be maintained; one set for grades 4 and 5, and a separate set for grades 6 through 8).

Auditors must design audit testing procedures to verify that School Registers maintained by the renaissance school project support the reporting of students in the auditor's workpapers and in the enrollment submissions to the Department through NJ Smart in sufficient grade level detail according to:

- Half Day Preschool-3 years old
- Full Day Preschool-3 years old
- Half Day Preschool-4 years old
- Full Day Preschool-4 years old
- Half Day Kindergarten
- Full Day Kindergarten

- Grade 1 through 5 (individually)
- Grade 6 through 8 (individually)
- Grades 9 through 12 (individually)
- Special Education Elementary School (Grade PreK-5)
- Special Education Middle School (Grade 6-8)
- Special Education High School (Grade 9-12)

Renaissance school project auditors may refer to the information regarding School Register enrollment codes, transfer card codes, and general discussion points at <http://www.nj.gov/education/finance/register/>.

School Register Sample Selection and Test Procedures for Audits of Renaissance School Projects:

1. On-roll full and shared students - Renaissance school project auditors must obtain the School Registers maintained by the renaissance school project and also the enrollment records/workpapers developed in support of enrollments submitted to NJ SMART. Testing of enrollments presented in the renaissance school project's School Registers must include samples selected from the enrollment records produced at each of the enrollment count dates, i.e. October 15, and if initiated by either the renaissance school project or the renaissance school district, the count that occurs on the last day of school. In instances where the October 15th count is the only count, the auditor must apply procedures to 100% of the records for the October 15th enrollment count. In instances where there is also a year-end count performed pursuant to a request made by the renaissance school district or the renaissance school project, in addition to the required October 15th count, although every enrolled student is not sampled for each of the two counts, the renaissance school project auditor must apply testing procedures to 100% of the student enrollment records at least once. This is accomplished by utilizing a "sampling without replacement" method. Once a student record has been randomly selected for testing in the October 15 enrollment count, that record is excluded from the sample pool for the subsequent (year-end) count. Utilizing this "non-replacement" method ensures that the auditor examines 100% of the charter school student records without duplication. For example, if total renaissance school project enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample size must include the remaining 250 students (only). The auditor should pay particular attention to students that have either enrolled into or transferred out of the renaissance school project during the school year to ensure that they are included in the testing, and that the enrolled days are accurate.

Auditor note: Since student enrollment is a component in the calculation of renaissance school project funding, auditors are required to be diligent in verifying the accuracy of the information. All discrepancies between the data reported in the Renaissance Enrollment Report used in the determination of enrollment, and the renaissance school project supporting documentation, including but not limited to, student transfer cards, IEPs, Free and Reduced Lunch Applications, Household Income Survey Forms, etc. must be reported by the auditor as an audit finding and recommendation, with the potential for monetary adjustment. The additional documentation supports the renaissance school project request for additional funding from the district of residence for classification of a student as LEP, low income, or special education are to be documented and reconciled.

2. Special Education Grade Level Tables

Special education students are reported by grade groupings – elementary, middle school, or high school. In order to verify the correctness of a student's classification by the school as special education, the auditor must observe the existence of an IEP. Auditors are to employ procedures to ensure that special

education students are not double-counted; once as graded and again as a special education student.

Renaissance School Project auditors must design audit tests to verify the existence of an IEP for 100% (may use sampling without replacement) of the students recorded as Special Education or Speech Only in the School Register(s) and reported to the Department as Special Education or Speech Only. Speech Only students are those students whose only special education service received is speech language services as defined in N.J.A.C. 6A:14-3.6. For all Special Education students, the auditor must review the student's IEP to verify the classification as Special Education. Note: the Speech Only IEP should be reviewed to determine that the student has been classified as Speech Only.

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

Special education students who are graded (Resource Center) are reported based on the following grade level table:

<u>Grade Level (as of 10/15/16)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

Special education students who are un-graded (Self-Contained) are reported based on the following age based table:

<u>Age (as of 6/30/17)</u>	<u>School</u>
11 and under	Elementary School
12-14	Middle School
15-21	High School

3. Private Schools for the Disabled - Renaissance School Projects

Pursuant to N.J.S.A.18A:36A-11(b) and N.J.S.A.18A:36C-14 renaissance school projects shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

Pursuant to N.J.S.A.18A:36A-11(c) and N.J.S.A.18A:36C-14, within 15 days of the signing of the individualized education plan, a renaissance school project shall provide notice to the resident district of any individualized education plan which results in a private day or residential placement. The resident district may challenge the placement within 30 days in accordance with the procedures established by law.

Auditors are required to inquire as to the status of any special education student in outside placements. The costs for educating these students are borne by the school district of residence. If a renaissance school project student has been placed in a Private School for the Disabled or a

residential program, the auditor must: 1. Verify that the IEP requires private placement, and 2. Verify that the student record has been classified as “Attending a Private School” on the renaissance school project Enrollment Count Detail.

4.Low-Income Students

Please refer to low-income enrollment guidance applicable to renaissance school projects beginning on page I-3.13 of this Audit Program.

5.Low Income Limited English Proficient (LEP) Students (kindergarten through 12).

Please refer to low-income LEP enrollment guidance applicable to renaissance school projects beginning on page I-3.17 of this Audit Program.

6.Limited English Proficient (LEP) Students (not low income- kindergarten through 12

Please refer to LEP enrollment section applicable to renaissance school projects beginning on page I-3.17 of this Audit Program.

For the October 14, 2016 renaissance school project enrollment count, NJSMART enrollment submission, and the related 2016-17 Renaissance School Aid Calculation and Renaissance School Project Payment Schedule, audit procedures must include, but are not limited to, the following:

1. Obtain the count procedures employed by the renaissance school project;
2. Evaluate the appropriateness of those procedures;
3. Design audit test procedures to evaluate whether the procedures were applied as described;
4. Verify the accuracy of the renaissance school project enrollment count(s) including student characteristics described in items 1 through 5 above.

Source documents related to the determination of student characteristics (e.g. Transfer Cards, Application for Free and Reduced Meals and Free Milk, Household Income Information Survey, workpapers listing bilingual education students, etc.) are obtained and determined by the renaissance school project. Source documents are the responsibility of the renaissance school project, must be maintained by the renaissance school project, and copies of source documents are provided to the student’s school district of residence.

The Schedule of Audited Enrollments and related auditor comments, findings, and recommendations are included in the Auditors' Management Report. The Schedule of Audited Enrollments is a supplementary schedule and subjected to the same auditing procedures applied in the examination of the renaissance school project’s basic financial statements.

The Following Section Addresses School District, Charter School and Renaissance School Project Audits for Students Presented as Low-Income, Low-Income LEP, and LEP (Not Low-Income)

All auditors are advised that for students enrolled in a charter school or renaissance school project, the charter school or renaissance school project is responsible to collect and to provide to the resident school district copies of the 2016-17 Household Application for Free and Reduced Priced Meals, 2016-17 Household Information Survey Forms (Community Eligibility Program (CEP) schools only) and a listing of the SNEARS-generated Direct Certification matches for students attending the school. Both the charter school or renaissance school project and the school district must have the appropriate low-income documentation on file for audit. **It is the responsibility of the charter school or renaissance school project to provide the district with the required low income documentation in support of the school district’s ASSA submission made to the state.**

Schools that are NOT Community Eligibility Program (CEP) Participating Schools:

3. Low-Income Enrollment – Full Time and Shared Time

Low-income eligible students are resident and nonresident students eligible for free or reduced price meals or free milk, that are part of the school district, or charter school, or renaissance school project's enrollment. Obtain the low-income workpapers (by school, by grade) prepared by the school district, charter school, or renaissance school project and reconcile total low-income eligible students listed to the low-income eligible students reported on the ASSA (school districts), Charter School Enrollment System ("CHE" (charter schools) or Renaissance Enrollment Report (renaissance school projects). 2015-16 Free and Reduced Price Meals Applications on file as of October 1, 2016 are the population of "Applications" from which the school district, or charter school, or renaissance school project personnel determined the number of applications to select for internal verification as low-income eligible students in accordance with rules established by the US Department of Agriculture. Refer to *The USDA Eligibility Manual for School Meals, School Year 2016-17* updated July 2016 available on the USDA website at <https://fns-prod.azureedge.net/sites/default/files/cn/EligibilityManualFinal.pdf>

Testing Requirements - Sampling

For audits of school districts only, audit sampling is used. Based on the total low-income eligible students listed on the workpapers, the auditor must use the table presented in chapter I-3 of this Audit Program under the sub-title "Determining Sample Size" to determine an appropriate sample size. To provide adequate coverage of the low-income eligibility concentrations the sample must include pupils from all schools tested for on roll. Although as discussed below, (carryover) 2015-16 Free and Reduced Price Meals Applications may be used for determining low-income status for enrollment classification, and for free/reduced meals eligibility for the first thirty days of the school year only, carryover applications are not to be included in the determination of the auditor's sample size of the 2016-17 Free and Reduced Price Meals Applications verification pool. For resident school district students enrolled in a charter school or a renaissance school project, **it is the responsibility of the charter school or renaissance school project to obtain the 2016-17 Free and Reduced Price Meals Applications** from the student's parent or guardian for any student attending the charter school or renaissance school project. It is the responsibility of the resident **district to obtain copies of the 2016-17 Free and Reduced Price Meals Applications and related documentation in support of the ASSA submission made to the state from the charter school or renaissance school project.**

For audits of charter schools or /renaissance school projects only 100% of Free and Reduced Price Meals Applications are tested. Based on the total low-income eligible students listed on the charter school enrollment workpapers, the auditor is required to audit 100% of free or reduced price applications included in the applicable annual enrollment count(s) utilizing a "sampling without replacement" method as described earlier in this chapter. This means that once a student record is selected for testing, that record is excluded from the sample pool for the auditor's testing of the subsequent count.

Use of Carryover 2015-16 Free and Reduced Price Meals Applications for 2016-17 Low Income Classification

Applicable to audits of school districts, charter schools, and renaissance school projects, for the October 2016 enrollment count, the cutoff date for determination of a student as low-income based upon a carryover (2015-16 Free and Reduced Price Meals Application) is the "thirtieth operating day of the school year." "Operating days" are established by each school district or charter school or renaissance school project calendar and are defined by the USDA as "days during which any meal service is provided". Accordingly, students may be eligible for free or reduced price meals or free milk, and may also be classified as low-income as at the last school day prior to October 15 (October 14, 2016) when the student's status has been determined to be low-income eligible as evidenced by a (carryover) 2015-16 Free and Reduced Price Meals Application as of the thirtieth operating day of the 2016-17 school year. The "thirty day" measure begins the first day in which school is open to students during which any meal

service is provided. Students may also be eligible for free or reduced price meals or free milk, and may also be classified as low-income as at the last school day prior to October 15 (October 14, 2016) when the student's status has been determined to be low-income eligible as evidenced by a current year 2016-17 Free and Reduced Price Meals Application under the National School Lunch Act and the Child Nutrition Act. Refer to *The USDA Eligibility Manual for School Meals, School Year 2016-17* updated July 2016 available on the USDA website at

<https://fns-prod.azureedge.net/sites/default/files/cn/EligibilityManualFinal.pdf>

Audit Procedures Applicable to School District, Charter School, or Renaissance School Project Audits

For school district audits, the sample selected, or for 100% of charter school and renaissance school project audits, the auditor must verify that, there are valid "Applications for Free and Reduced Price Meals and Free Milk" on file to support the number of pupils reported. To be considered valid, an application must contain all required information and signatures. For those school districts or charter schools or renaissance school projects that have students that have been directly certified (TANF, SNAP, etc.) verify that the pupil is included on the direct certification list maintained by the central office. Trace the applications (or direct certifications) to the School Register(s) to ensure that the students were on roll as of the last school day prior to October 15 (October 14, 2016). For purposes of the ASSA and State Aid, only on-roll students that are eligible for free or reduced price meals or free milk as of the thirtieth operating day of the school year beginning may be classified as low-income students. For purposes of determining the thirtieth day, the "first day" of the school year is defined, as "the first day that school is open to students during which any meal service is provided". Low Income eligibility for the first thirty days only, may be evidenced by a carryover of last year's "2015-16 Application for Free and Reduced Price Meals and Free Milk" as described on the previous page of this Audit Program, or a current year "2016-17 Free and Reduced Price Meals Application". After the "first thirty days" only a current year "2016-17 Free and Reduced Price Meals Application" is acceptable evidence of low-income status. Only "Free and Reduced Price Meals Application" eligible students as of the appropriate measurement date should be reported as low-income eligible students in the ASSA (school districts) or the "CHE" (charter schools), or the Renaissance Enrollment Report (renaissance school projects).

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

Schools that are Community Eligibility Program (CEP) Participating Schools:

3. Low-Income Enrollment – Full Time and Shared Time

CEP participating school districts, charter schools, and renaissance school projects were provided guidance for the administration, determination, and verification of low income status for students attending CEP schools. The CEP school's Determining Official is responsible for ensuring that CEP school students presented as low income on the associated workpapers (e.g. ASSA/CHE/Renaissance Enrollment workpapers), in the New Jersey School Register as required by N.J.A.C. 6A:32-8.1, and any other State data collection (e.g. ASSA, CHE, Renaissance Enrollment Report, and NJ SMART) have the required supporting documentation. The CEP school Confirming Official is responsible to verify the determination made by the Determining Official (through the use of sampling) that the number of students in a CEP school reported as low income in the New Jersey School Register and any other State data collection is documented properly and correctly reported.

Auditors are encouraged to obtain that guidance from the department's website at:
<http://www.nj.gov/education/archive/finance/cep/DetailedProcedures.pdf>

For 2016-17 (October 14, 2016 enrollment count), students in a CEP school are determined to be low income students when any of the following supporting documentation is maintained on file:

1. A completed valid 2016-17 Household Information Survey Form has been received and the determination is that the student is properly classified as Free-equivalent or Reduced-equivalent;
or
2. In the absence of a 2016-17 Household Information Survey Form, a student is determined to be directly certified through the SNEARS matching system;

For 2016-17, all CEP school districts, charter schools, and renaissance school projects were instructed to verify the accuracy of a representative sample of the low-income students prior to reporting to the State. The department issued additional verification sampling guidance available on the finance website at: <http://www.nj.gov/education/finance/cep/verification.pdf>. Auditors are to verify that the departmental required procedures for verification of the accuracy of the low income determinations were followed by assigned school district/charter school/renaissance school project staff (e.g. Determining Official and the Confirming Official). The requirements from that aforementioned guidance are summarized below.

Eligibility Verification Requirements Applicable to CEP School Districts:

The Confirming Official for a CEP school district was required to calculate the required low-income verification sample size on an individual school basis and on a district wide basis. To calculate the individual school sample size, the school district Confirming Official was required to locate the sample size on the Sample Size Selection Chart that corresponds to the number of low-income on-roll students at each of the district's CEP schools. This process resulted in a sample size requirement for each school. Districts were encouraged to also determine the sample size requirement on a district wide basis, as the district wide sample might require fewer total verifications. Once these calculations are completed, the district may choose the sample size selection method that yields the smaller sample. When there are other CEP schools in the district, the districts were required to continue to determine the sample size for verification for each of the district's CEP schools individually using the same method. This process must continue until applied to each individual CEP school. Please note that non-CEP schools (and all students in non-CEP schools) were excluded from the CEP sample size calculations in both methods described herein.

Eligibility Verification Requirements Applicable to CEP Charter Schools:

CEP charter schools were required to calculate their verification sample size based upon the CEP school's low-income enrollment entered into the Charter School Enrollment System (CHE) and the sample size selection chart published on the DOE CEP website. For example, a CEP charter school reports 1,320 low-income students in the CHE. Use of the sample size selection chart on the NJDOE CEP website at: <http://www.state.nj.us/education/finance/cep/SampleSize.pdf> determines the charter school must select 264 students for verification out of the 1,320 that have been classified as low-income. The charter school's confirming official must determine a selection interval (e.g. every 5th student) for selection by dividing the number of students reported as low-income by the required sample size. Applying the method of every "nth" student; in this instance every 5th student ($1,320/264 = 5$) is selected for verification until 264 students have been identified for verification. For detailed verification instructions, please refer to the Confirming Official's Guidance section on pages 4 through 7 of the document entitled "Detailed Procedures for Administering the NJ Household Information Survey" available on the NJDOE CEP website and also available using the following link:
<http://www.nj.gov/education/archive/finance/cep/verification.pdf>

Eligibility Verification Requirements Applicable to CEP Renaissance School Projects:

CEP renaissance school projects were required to calculate their verification sample size based upon the CEP school's low-income enrollment entered into the Renaissance Enrollment Report and the sample size selection chart published on the DOE CEP website. For example, a CEP renaissance school project reports 1,320 low-income students in the Renaissance Enrollment Report. Use of the sample size selection chart on the NJDOE CEP website at: <http://www.state.nj.us/education/finance/cep/SampleSize.pdf> determines the renaissance school must select 264 students for verification out of the 1,320 that have been classified as low-income. The renaissance school's confirming official must determine a selection interval (e.g. every 5th student) for selection by dividing the number of students reported as low-income by the required sample size. Applying the method of every "nth" student; in this instance every 5th student ($1,320/264 = 5$) is selected for verification until 264 students have been identified for verification. For detailed verification instructions, please refer to the Confirming Official's Guidance section on pages 4 through 7 of the document entitled "Detailed Procedures for Administering the NJ Household Information Survey" available on the NJDOE CEP website and also available using the following link: <http://www.nj.gov/education/archive/finance/cep/DetailedProcedures.pdf>

Audit Procedures Applicable to CEP School Districts, CEP Charter Schools, and CEP Renaissance School Projects:

A valid 2016-17 New Jersey Household Information Survey Form (CEP) is one that contains all required information (Part A. Household Members; Part B. Benefits Received (if applicable); Part C. (Household Size and Gross Income) and signatures. For school districts, charter schools, or renaissance school projects with individual students that are determined to be low income students pursuant to a determination based upon a 2016-17 New Jersey Household Information Survey Form (CEP):

- Marked in Part B. as directly certified (FDPIR, TANF, SNAP, etc.) the auditor is required to verify that the pupil is included on the direct certification list maintained by the central office,
- Marked in Part C. as Range 1 (Free Equivalent) or as Range 2 (Reduced Equivalent). Note that Range 3 equates to not low income/ineligible.

Errors detected in income classifications during the testing of Household Information Forms, which impact the free classifications, should be applied to the low-income count when applicable. The verified count reported on the Schedule of Audited Enrollments must reflect all adjustments discovered during the above procedures. If the workpapers do not agree with the ASSA (school districts), CHE (charter schools) or Renaissance Enrollment Report (renaissance school projects), those variances must be reported on the Schedule of Audited Enrollments, as well.

Auditors can review the detailed procedures utilized by school districts, or charter schools, or renaissance school projects for administering the NJ Household Information Survey at <http://www.state.nj.us/education/finance/cep/DetailedProcedures.pdf>.

The Following Section Addresses School District, Charter School and Renaissance School Project Audits for Students Presented as Limited English Proficient (LEP)

Individual students who are identified as LEP must be classified as either Low-Income LEP or LEP (Not Low-Income) pursuant to the results of the low income testing (see above section). School districts, charter schools and renaissance school projects are required to identify in the School Register and report on the ASSA, CHE, NJSMAST students who qualify for LEP services and further classify the student as LEP low income, or as LEP (only).

Low Income Limited English Proficient (LEP) Students (K-12) and Limited English Proficient (LEP) Students (not low income; K-12) –

Bilingual education programs are provided to students identified as limited English proficient (LEP) to help them develop academic skills while acquiring English language skills.

There are currently four programs as follows:

- Full-Time Bilingual programs with content area instruction in the native language provided when there are 20 or more LEP students of a single language group in a district/charter school/renaissance school project.
- Alternatives to a full-time bilingual program can be provided when there are 20 or more LEP students of a single language group in a district/charter school/renaissance school project and a district/charter/renaissance school project has an approved NJDOE Bilingual Program Waiver Request for the current school year. The following program alternatives can be granted in lieu of a full-time bilingual program:
 - Sheltered Instruction;
 - High-Intensity ESL;
 - Bilingual Tutorial;
 - Bilingual Resource; and
 - Bilingual Part-Time Program.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students and less than 20 LEP students of a single language group in a district/charter school/renaissance school project..
- English Language Services (ELS) programs are provided when there is at least 1, but fewer than 10, LEP students in a district/charter school/renaissance school project.

Program Plans for Full-Time Bilingual, Alternative, ESL-only and ELS programs are developed every three years. School districts/charter schools/renaissance school projects are required to develop plans and maintain them on file in the district/charter school/renaissance school project. The current three-year cycle began in July 2014, and will end in 2017. All programs operate from September to June. The auditor should also verify that the LEA/charter school/renaissance school project maintains on file a current Bilingual, ESL or ELS plan, which included the year ending June 30, 2017.

If applicable, districts/charter schools/renaissance school projects with an alternative program are required to develop a Bilingual Program Waiver Request and maintain it on file. The waiver is submitted annually. All alternative programs operate from September to June. The auditor should also verify that the LEA/charter school/renaissance school project maintains on file a current Bilingual Program Waiver Request that included the year ending June 30, 2017, if applicable.

Bilingual, ESL or ELS programs are provided to students identified as LEP by a state established standard on an English language proficiency test. The following students enrolled in the district/charter school as of October 14, 2016 are eligible to be reported in the 2017-18 ASSA/CHE/Renaissance Enrollment Report:

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

The number of eligible students must be supported by a listing by school which includes each student's name and the number of the register on which they are enrolled. Beginning with the October 15, 2008 ASSA/CHE, LEP students with an IEP counted in bilingual education are also permitted to be counted as special education students.

Based on the total LEP students reported (Line 51 of the ASSA), the auditor should use the table on page I-3.20 to determine an appropriate sample size. Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15 (October 14, 2016). **LEP students are listed on the ASSA as either low income or not low income. Where LEP and low income is indicated, auditors must also check the low income eligibility of the LEP students in the sample.** See the preceding Section 3 in this chapter on low income eligibility. The results of the LEP testing are reported in the Schedule of Audited Enrollments that is required to be included in the Auditors' Management Report.

LEP Placement Criteria:

The bilingual education code (*N.J.A.C. 6A:15-1.10*) states that the process to determine the readiness or inability of the individual student to function successfully in an English only program shall be initiated by the student's level of English proficiency as measured by a department established standard on one of the accepted English language proficiency tests listed below. The readiness of the student shall be further assessed on the basis of the multiple indicators, also listed below. Thus, students may be retained for program services even though their language proficiency test scores on the LAS, LAS – Links, IPT, MACII, ACCESS for ELLs 2.0, CELLA, W-APT, WIDA MODEL, and WIDA Screener are at the standard. Districts/charter schools/renaissance school projects may continue to report these students as LEP on the ASSA/CHE/Renaissance Enrollment Report if other indicators support the decision to continue language assistance program services. Testing of each LEP student reported on the ASSA/CHE must be documented as part of ASSA/CHE/Renaissance Enrollment Report. supporting documentation.

2016-17 English Language Proficiency Tests:

- Language Assessment Scales (LAS), published by CTB/McGraw Hill
- Language Assessment Scales Links (LAS-Links) published by CTB/McGraw Hill
- IDEA Proficiency Test, published by Ballard & Tighe Publishing Company
- MAC II Test of English Language Proficiency, published by Questar Assessment, Inc. (formerly Touchstone Applies Science Associates, Inc.)
- WIDA ACCESS for ELLS Placement Test (W-APT)
- Assessing Comprehension and Communication in English State to State for English Language Learners ACCESS for ELLs 2.0.
- Comprehensive English Language Learning Assessment (CELLA), published by Accountability Works, Inc.
- WIDA MODEL TEST
- WIDA Screener

The standards for these are outlined below. Additional information for the tests above is on the website: www.nj.gov/education/bilingual/resources/prof_tests.htm.

Using Multiple Criteria for Program Entry and Exit

Districts/charter schools/renaissance school projects must use multiple indicators, as specified in code (*N.J.A.C. 6A:15-1.3(c)* and *6A:15-1.10(b)*) to determine which students need English as a Second Language (ESL) and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services. Use of the multiple indicators is particularly important when a student's test score is close to a cut point (as determined by the standard error of measurement (SEM)). These other indicators include:

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

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

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

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

Standard

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

LAS Links Language Assessment System- CTB McGraw-Hill Publishers

For each grade, there are score ranges for each language domain and for each language proficiency level.

Grade (e.g., 5)	1 Beginning	2 Early Intermediate	3 Intermediate	4 Proficient	5 Above Proficient
Overall					
Listening					
Speaking					
Reading					
Writing					

Standard: Any student that scores below the proficient range on the **Overall** score and has at least one other indicator (listed above) as per *N.J.A.C. 6A:15 1.3(b)* is limited English proficient.

The *LAS Links* Student Profile Sheet can be used for placement of students, and is available in an electronic version and a printed version. If the student's score is below the Proficient range (e.g., Beginning, Early Intermediate, or Intermediate), they are considered LEP.

IDEA Proficiency Test (IPT) - Ballard and Tighe Publishers

Use the IPT designations to determine program placement.

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

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

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

Standard

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

MACII Test of English Language Proficiency – Questar Assessment, Inc. (formerly Touchstone Applied Science Associates, Inc.) Publishers

Use the Standard Score Cut Points to determine program placement.

Standard Score Cut Points*				
Test Level	Grade	Fall	Spring	SEM**
Red	K	210	220	8
	1	566	588	14
Blue	2	548	564	12
	3	558	574	12
Orange	4	543	559	10
	5	556	569	11
Ivory	6	545	557	10
	7	551	562	10
	8	555	567	10
Tan	9	549	560	10
	10	558	570	11
	11	568	583	11
	12	580	593	11

*For grades 1-12, cut points are set for Total Battery scores. For grade K, cut points are set in terms of total Speaking and Listening scores.

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

WIDA-ACCESS Placement Test (W-APT)

The WIDA-ACCESS Placement Test (W-APT)TM is an adaptive test that can gauge students' proficiency up to and beyond level 5 of the WIDA ELP Standards. Like ACCESS for ELLs 2.0®, there are five grade level clusters (Kindergarten, 1-2, 3-5, 6-8, and 9-12). Unlike the ACCESS for ELLs 2.0®, all scoring of the W-APT is completed on site by the test administrator. All sections of the test are scored as the test is administered. After completion of the Speaking, Listening, Reading and Writing, the Test Administrator will use the instructions on the scoring sheet to calculate the students' overall Proficiency Level.

Grades 1-12

The regulation mandating the use of multiple criteria for identifying and exiting students from language assistance programs services is still required. For students in grades 1 through 12, a W-APT proficiency level of **4.5** or higher is recommended for exiting a program if multiple criteria support the decision.

Kindergarten

The Kindergarten test is organized into parts (A through E), each progressively more difficult. If the student successfully completes a part (e.g., A) they move on to the next part. The score sheet indicates the criteria for successful completion and will indicate how far the student progresses in the adaptive administration. For example to successfully complete part D of the Listening and Speaking exam, a student must answer at least 3 questions correctly in Part A, 3 questions correctly in Part B, 3 questions correctly in Part C, and 4 questions correctly in Part D.

The W-APT may be used to help determine eligibility of a kindergarten student for language assistance or to help identify when a student is able to exit a language assistance program. Eligibility may be determined at any time during the school year. However, the Reading and Writing sections of the W-APT test are only appropriate during the second half of the Kindergarten year.

For example, eligibility for language assistance program services for a student tested in September is contingent on students NOT successfully completing any Parts A, B, and C of the Listening and Speaking Test. If a student is tested in February, the student will take the Listening and Speaking, Reading and Writing tests. If the student does not successfully complete the appropriate parts in any one of the three tests, the student is eligible for language assistance. Districts/charter schools should consider other indicators in making their placement decision.

To exit a language assistance program a student is expected to meet the criteria in all three test sections. The following chart demonstrates the standards for program entry and exit in kindergarten:

Test Section	Eligibility for Language Assistance Kindergarten		Exit Language Assistance
	Administered Before January 1 of the School Year	Administered After January 1 of the School Year	Administered at the End of Kindergarten
Listening and Speaking	Does not successfully complete parts A, B, C, and D	Does not successfully complete parts A, B, C, and D OR	Successfully complete parts A, B, C, and D AND answer at least 3 questions correctly in Part E AND
Reading		Does not successfully complete parts A, B, and C OR	Successfully complete parts A, B, C, and D AND
Writing		Does not successfully complete parts A, B, and C	Successfully complete parts A, B, C, and D

Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™) and ACCESS for ELLs 2.0

The **ACCESS for ELLs 2.0** English Language Proficiency test is required to be administered annually to all LEP students to measure progress in the English language. The test is administered during a six-week window each spring and scored by an outside vendor. Districts/charter schools receive score reports during the summer, and can make tentative placement decisions based on other indicators until the score reports are received. For more information on the **ACCESS for ELLs 2.0**, go to the website:

http://www.nj.gov/education/bilingual/ells/score/entry_exit.htm

Comprehensive English Language Learning Assessment (CELLA)

CELLA Proficiency Levels

A student scoring below English Proficient and has at least one other indicator as per N.J.A.C. 6A:15-1.3(c) is considered limited English proficient.

Listening and Speaking Proficiency Levels

Beginning students speak in English and understand spoken English that is below grade level and require continuous support.

Low Intermediate students speak in English and understand spoken English that is at or below grade level and require some support.

High Intermediate students, with minimal support, speak in English and understand spoken English that is at grade level.

English Proficient students speak in English and understand spoken English at grade level in a manner similar to non-ELL students.

Reading Proficiency Levels

Beginning students read below grade level text and require continuous support.

Low Intermediate students read at or below grade level text and require some support.

High Intermediate students read at grade level text with minimal support.

English Proficient students read at grade level text in a manner similar to non-ELLs.

Writing Proficiency Levels

Beginning students write below grade level and require continuous support.

Low Intermediate students write at or below grade level and require some support.

High Intermediate students write at grade level with minimal support.

English Proficient students write at grade level in a manner similar to non-ELLs.

WIDA MODEL TEST

The WIDA MODEL (Measure of Developing English Language) is a series of English language proficiency assessments for Kindergarten through Grade 12. MODEL can be used by educators as an identification/placement assessment for newly enrolled ELLs or as an interim progress monitoring assessment. MODEL can be used for these purposes:

- To identify students who may be candidates for English as a Second Language (ESL)/bilingual services;
- To determine the academic English language proficiency level of students new to a school or to the U.S. school system;
- To place students into the necessary amount and type of instructional services and support; and
- To serve as an interim assessment during the school year, providing information that informs instructional planning and other decisions related to a student's education.

The WIDA Model should be considered one of several elements in the decision-making process regarding ELL identification and placement in instructional services. N.J.A.C. 6A:15-1.3(c) mandates the use of multiple indicators for identifying and exiting limited English proficient students from language assistance programs. Scores are reported for each of the four language domains and in several composites as follows:

- Listening
- Speaking
- Reading
- Writing
- Oral Language (50% Listening, 50% Speaking)
- Literacy (50% Reading, 50% Writing)
- Overall (30% Oral Language, 70% Literacy)

The cut-score for the WIDA MODEL Test is a 4.5 composite score for grades 1 to 12. For students taking the Kindergarten MODEL test **prior to January 1**, the standard for the oral proficiency level score (listening and speaking sections only) is a **5.0 oral language proficiency level and at least one other indicator**. For students taking the Kindergarten MODEL **after January 1**, the standard is a 4.5 overall composite proficiency level **and multiple indicators** as per N.J.A.C.6A15:1.10(c). This score is based on the student taking all parts (listening, speaking, reading, and writing) of the K MODEL.

ADDITIONAL AUDIT PROCEDURES TO BE PERFORMED ON THE ASSA

In addition to the testing of enrollment reported, the public school accountant must also verify that the district/charter school/renaissance school projects maintains written internal procedures which provide a description of the October 14, 2016 count process enrollment count process.

These written procedures must include the following information:

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

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

A memo was distributed to all school districts regarding the necessary records that were required to be maintained to support the data included in the October 14, 2016 ASSA. Copies of the suggested sample formats for supporting workpapers were distributed with the memo. As noted in the memo, the data reported on the ASSA must be clearly documented and should be on file at the district. The memo, instructions, and a Q & A document may be obtained from the website:

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

ADDITIONAL PROCEDURES FOR SCHOOL-BASED MEDICAID REIMBURSEMENT PROGRAMS – School Districts and Charter Schools

Section 1903(c) of the U. S. Code allows Medicaid reimbursement for medically necessary school-based health services provided to Medicaid-eligible students. The services must be covered in the State plan for Medicaid, as approved by the Centers for Medicare and Medicaid Services (CMS), and provided by qualified practitioners with credentials meeting State and Federal requirements.

The State of New Jersey, Department of the Treasury administers two separate and distinct school-based Medicaid reimbursement programs: the Special Education Medicaid Initiative (SEMI) Program, including Cost Settlement Requirements, and Medicaid Administrative Claiming (MAC). The SEMI Program allows for the recovery of costs associated with the delivery of related services and evaluation services to special education students. Participating school districts/charter schools/renaissance school projects should have completed a Memorandum of Understanding between the district/charter school/renaissance school project and the New Jersey Department of the Treasury. Cost settlement, mandated by the CMS, requires all states to demonstrate that rates paid for school-based Medicaid services are not higher than the actual cost of providing medical services. MAC allows for the recovery of costs associated with a wide range of Medicaid outreach activities eligible for administrative claiming.

The CMS has instituted several reporting requirements designed to document a district's/charter school's/renaissance school project's compliance with federal reimbursement regulations. As a result, the State of New Jersey Department of the Treasury requires that each district/charter school/renaissance school project designate an employee who is responsible for the coordination of the district's/charter school's/renaissance school project's SEMI program with the third party billing administrator identified by the Department of Treasury. The CMS' compliance requirements for districts/charter schools/renaissance school projects are pertinent to the district/charter school/renaissance school project achieving maximum participation and include:

- Submission by the district/charter school/renaissance school project designated employee who is responsible for the coordination of the district's/charter school's/renaissance school project's SEMI Program of the quarterly updates and certification of the Staff Pool List (SPL) in the third party billing administrator's proprietary software system.
- Staff represented on the SPL that are selected for completion of the quarterly Random Moment Time Study (RMTS) are required to complete the RMTS in a timely manner.
- Identification by the district/charter school/renaissance school project of the district/charter school/renaissance school project personnel responsible for the submission of the quarterly and annual financial information of the staff listed on the SPL in the third party billing administrator's software system.

- Timely submission and certification by the identified district/charter school/renaissance school project personnel of the quarterly and annual financial information of the staff listed on the SPL in the third party administrator's proprietary software system.

Under the SEMI Program, related services, health related evaluation services, and specialized transportation are activities for which a district/charter school/renaissance school project may submit claims. A student must have a valid IEP that documents the need for related services that have been submitted for reimbursement. In addition, school districts/charter schools /renaissance school projects are required to have all necessary documentation on file for review to support all claims for health related services performed as indicated in the applicable chapters of the SEMI Provider Handbook. Specific reference is to Chapter 5 of the SEMI Provider Handbook, "Covered Services and Practitioner Qualifications with Fee-for-Service Reimbursement" and to Chapter 6, Fee-for-Service Documentation Requirements." The SEMI Provider Handbook is available through a link to "Special Education Medicaid Initiative" on the New Jersey Department of Education (NJDOE) website (Special Education/Information for Districts and Parents) or accessed directly at: <http://www.state.nj.us/treasury/administration/pdf/semi-handbook.pdf>

Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to submit billing services on behalf of districts/charter schools/renaissance school projects. Effective October 1, 2005, districts/charter schools began documenting services via PCG's proprietary third party administrator system. PCG's third party administrator system is a web-based application used to document related services, evaluation services, and specialized transportation. A select group of health related services (audiology, occupational therapy, speech therapy, physical therapy, nursing, and counseling) as well as evaluation services are reimbursable only when delivered by Medicaid qualified practitioners. See Chapter 6, "Fee-for-Service Documentation Requirements" of the SEMI Provider Handbook for the documentation required when using PCG's third party administrator system. Contact PCG at njsemi@pcgus.com.

Audit procedures involve testing to determine that documentation is being maintained by school districts/charter schools/renaissance school projects. Auditors should also consider the Medicaid assistance when planning the single audit. The Schedule of Federal Expenditures of Federal Awards included in the Single Audit chapter of The Audit Program includes the Medicaid Assistance Program as a line in the general fund.

In accordance with *N.J.S.A.* 18A:55-3 school districts are required to maximize their participation in the Special Education Medicaid Initiative (SEMI) Program. The adopted Accountability Regulations specified in *New Jersey Administrative Code* (N.J.A.C.) 6A:23A-5.3 include programmatic guidelines and standards for local school districts to maximize participation in the SEMI Program.

The district/charter school/renaissance school project shall recognize as revenue in its annual district budget no less than 90 percent of SEMI revenue projections provided by the department, unless the district has received a waiver or submitted and received approval for an alternative SEMI revenue projection.

A district/charter school/renaissance school project may seek a waiver of the requirements to maximize the SEMI Program if it can show that as per the October 15 Special Education Student Count for the previous school year (FYE 6/30/16 refer to October 14, 2015 count), it had 40 or fewer Special Education-Medicaid eligible students. This information must be based on reliable evidence and on the revenue projection provided by the NJDOE of the district's/charter school's/renaissance school project's eligible students or available SEMI reimbursement for the budget year.

A district/charter school/renaissance school project may seek approval from the Executive County Superintendent to develop its own alternate SEMI revenue projections upon demonstration that the

numbers it used in calculating the revenue projections are more accurate than those provided by the department. All alternate revenue projection proposals must be submitted to the Executive County Superintendent no less than 45 days prior to the submission of the district's proposed budget.

In accordance with *N.J.A.C. 6A:23A-5.3(f)*, each district/charter school/renaissance school project that has not achieved maximum participation in the SEMI Program or failed to comply with all program requirements set forth in *N.J.A.C. 6A:23A-5.3(e)*, shall demonstrate a good faith effort to achieve maximum participation and to maximize available SEMI revenue by submitting a SEMI Action Plan to the Executive County Superintendent for review and approval as part of the district's/charter school's/renaissance school project's proposed budget submission. Maximum participation in the SEMI Program is defined in the regulations as obtaining 90 percent return rate of parental consent forms for all SEMI eligible students. The one exception to the 90 percent participation requirement is for newly participating districts. Districts/charter schools/renaissance school projects that are first time participants in the SEMI Program are expected to achieve a 45 percent return rate of parental consent forms and 50% of the budgeted revenue for all SEMI eligible students for their initial year of participation only.

SEMI-ARRA June 2015 Payment

Pursuant to a July 2014 audit report issued by the United States Department of Health and Human Services, Office of Inspector General, and in order to achieve compliance with the political subdivision requirement for receiving an increase in Federal Medical Assistance Percentage (FMAP) under the American Recovery and Reinvestment Act (ARRA), Treasury has notified school districts and charter schools of a redistribution of additional Medicaid funding to LEAs participating in SEMI during the quarters ending December 31, 2008, March 31, 2009, and June 30, 2009 through December 31, 2010 in the total amount of \$13,916,801, of which \$13,342,414.05 is allocated to school districts and charter schools. Formal notification of the amounts due was distributed by Treasury on June 11, 2015. The audit report is available on the federal Health and Human Services Office of the Inspector General web site (Audit A-02-11-01039). The following link provides amounts to be distributed to school districts/charter schools participating in SEMI during those specific quarters by county and by LEA.

[SEMIARRADec2015Payout.xlsx](#)

Options for Use:

School districts were offered the option to use the funds against 2014-15 appropriations/expenditures. Districts that did not expend the funds during that period, were offered the two following options:

1. Appropriate for use through a 2015-16 budget revision

N.J.A.C. 6A:23A-13.3(d)5 provides that district Boards of Education/Boards of Trustees may, at any time (by board resolution) and without Commissioner approval, choose to appropriate unbudgeted or underbudgeted federal revenue. Any portion of ARRA/SEMI funds not used in the 2014-15 budget may be appropriated by board resolution for use during 2015-16. If the 2015-16 budget is amended prior to February 1, 2016, the amount on line 3 of the 2016-17 Recapitulation of Balances must be increased to reflect the budgeted amount of the ARRA SEMI funds in 2015-16. If the 2015-16 budget is to be amended after February 1, 2016, the amount to be budgeted must be entered on the 2016-17 Recapitulation of Balances on line 5 for Additional Balance to Be Appropriated in 2015-16. **Amounts not budgeted for 2014-15 or for 2015-16, must be appropriated for 2016-17 (option 2).**

Also, for the year ended June 30, 2016 amounts not used against 2014-15 appropriations/expenditures or pursuant to a 2015-16 budget revision, remain assigned fund balance at June 30, 2016, and that amount may be presented as a decrease to unassigned general fund balance by inclusion on Line (C5) of the audited excess surplus calculation as "Assigned Fund Balance ARRA/SEMI– Unreserved-Designated for Subsequent Year's Expenditures"; reported on (Audsum Line 90081); and included as "Assigned – Designated

for Subsequent Year Expenditures” in the LEA’s June 30, 2016 Comprehensive Annual Financial Report (CAFR).

2. Appropriate for use in 2016-17 budget

For Boards of Education/Boards of Trustees that report a June 30, 2015 balance of additional ARRA/SEMI funding on Line number 90081 of the 2015-16 Audsum, the 2016-17 budget software will force the amount to be budgeted as general fund revenue in the original 2016-17 budget certified for taxes. Any unexpended funds at June 30, 2017 will drop to surplus at June 30, 2017 and be subject to the audited excess surplus calculation.

ARRA/SEMI funds must be reported separately in the Schedule of Expenditures of Federal Awards identified using the prefix ARRA and the CFDA number 93.778. The additional allocation is not specifically identified by quarter, so use of the period 10/1/2008 – 12/31/2010 is acceptable.

SEMI-ARRA December 2016 Payment

On December 13, 2016, the State of New Jersey Department of Treasury made an electronic payment to some school districts and charter schools that had received Special Education Medicaid Initiative (SEMI) reimbursements for the quarter ending April 1, 2009 through December 31, 2010 of an additional payment representing an increase in the SEMI Federal Medical Assistance Percentage (FMAP) under the American Recovery and Reinvestment Act (ARRA). A total of \$2,499,437 was distributed to 283 school districts and charter schools. The following link provides amounts distributed to school districts/charter schools participating in SEMI during those specific quarters by county and by LEA. [SEMIARRADec2016Payout.xlsx](#)

This SEMI reimbursement is provided by federal ARRA/SEMI funding and is directly related to LEA costs incurred during prior fiscal years. The Department, in accordance with generally accepted governmental accounting principles, required revenue recognition in the financial statements and schedules to occur for the year ending June 30, 2017.

Options for Use:

School districts were offered the following two options for use of the funds:

1. Appropriate for use through a 2016-2017 budget revision

N.J.A.C. 6A:23A-13.3 (d) 5 provides that a district board of education may, at any time and without Commissioner approval, choose to appropriate unbudgeted or underbudgeted federal revenue.

a. If the district 2016-17 budget was revised on or prior to February 1, 2017, the appropriation was to be reported through entries to revenue and appropriation accounts. The portion of this funding that was appropriated for use during 2016-2017, on or prior to February 1, 2017, was required to be entered in the middle column (2016-2017) of the 2017-2018 budget software on revenue line number 541 “ARRA/SEMI Revenue”, account 10-4210. The budgeted 2016-2017 appropriations was to be increased to reflect the use/appropriation of these funds.

b. After February 1, 2017: The appropriation was to be reported through entries to the Recapitulation of Balances (Recap) screen. Any portion of this funding appropriated for use during 2016-2017, after February 1, 2017, was required to be entered in the middle column (2016-2017) on both line 5 (Less- Additional Balance to be Appropriated 16-17 after

Feb 1) and line 6 (Plus-Additional Balance Anticipated 16-17 after Feb 1) of 2017-2018 Recap.

Amounts not appropriated for 2016-2017 must be appropriated for use in the original budget for 2017-2018 whenever the district’s 2017-2018 budget software calculates excess surplus in the additional excess surplus Support Doc.

2. Appropriate for use in 2017-2018 budget

A district that did not fully appropriate these funds for 2016-2017 was required to record the unappropriated amount on the 2017-2018 Recap screen on line 6 (Plus-Additional Balance Anticipated 16-17 after Feb 1), in the 2016-2017 (middle) column. This caused the amount to be brought into the “Additional Excess Surplus” calculation performed by the Excess Surplus Support Doc of the 2017-2018 budget software. Essentially, any unappropriated ARRA/SEMI funds contributing to projected excess surplus (in excess of 2% of fund balance) was forced to be budgeted as fund balance in 2017-2018. This amount was also to be reported on the 2017-2018 Recap in column 3 (2017-2018) - line 4 (Less –Additional Excess Surplus Budgeted from Support Doc).

Note that any amount of these funds appropriated for use after February 1, 2017 plus any amount of these funds appropriated in the 2017-2018 budget must be reflected on “Recap” in the amount the district enters in the middle column (2016-2017) on line 6 (Plus – Additional Balance Anticipated 16-17 After Feb. 1).

ARRA/SEMI funds must be reported separately in the Schedule of Expenditures of Federal Awards identified using the prefix ARRA and the CFDA number 93.778. The additional allocation is not specifically identified by quarter, so use of the period 4/1/2009- – 12/31/2009 is acceptable.

Page 4-93.778-6 of the June 2010 *Compliance Supplement*, Department of Health and Human Services, CFDA 93.778 Medical Assistance Program (Medicaid; Title XIX) available at https://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a133_compliance/2010/hhs.pdf provides auditor information on the additional ARRA FMAP.

DISTRICT REPORT OF TRANSPORTED RESIDENT STUDENTS (DRTRS) (DOES NOT APPLY TO CHARTER SCHOOLS/RENAISSANCE SCHOOL PROJECTS)

Overview

Auditors are required to perform detailed testing procedures relating to student transportation as reported on the 2016-17 District Report of Transported Resident Students (DRTRS). The department maintains the DRTRS as a web-based system. The DRTRS software creates a five-page DRTRS District Summary Report, which auditors must obtain directly from their school district client. After obtaining the 2016-17 DRTRS from your client, auditors must also obtain the October 2016 DRTRS County Summary Report (available from the DOE website <http://www.state.nj.us/education/finance/fp/audit/1617>). The October 2016 DRTRS County Summary Report is a compilation of district data by county/district. The DRTRS produced by the department’s transportation software and obtained from your district client must agree with the October 2016 DRTRS County Summary Report compiled by the department and posted to the department’s audit webpage. Additionally, an Excel spreadsheet supporting the data reported on the DRTRS is also provided. This spreadsheet allows for the sorting of data, as needed. Data can be sorted by selecting a variable in each column to match the DRTRS output for audit purposes. The following paragraph provides the crosswalk necessary to perform audit procedures on the two documents.

The DRTRS provides the transported student characteristics summarized by category (e.g. Category A. is labeled “Eligible Regular and In-District Special Education Students without Special Transportation Needs”) and reported in the four part (A through D) DRTRS District Summary Report. Each category of the DRTRS District Summary Report must be verified against the October 2016 DRTRS County Summary Report using the following crosswalk:

- The sum of lines A-1 (**include number only if the district is PreK Aid Eligible**), A-2, A-3, A-4 and A-5 should agree to the Regular Public Column.
- Line A-6 should agree to the Nonpublic Transported column.
- Line A-7 should agree to the Nonpublic AIL column.
- The sum of lines A-8, A-9 and A-10 should agree to the Regular Special Education column.
- The sum of lines B-1, B-2, B-3, B-6, B-7, and B-8 should agree to the Special Education Special Needs column.
- Line D-1 should agree to the Nonpublic Transportation 20.1 to 30 column.
- Line D-2 should agree to the Nonpublic Transportation >30 column.
- Line D-3 should agree to the Nonpublic AIL 20.1 to 30 column.
- Line D-4 should agree to the Nonpublic AIL >30 column.

Sample Size

Use the table in the first part of this chapter to determine the appropriate sample size for the population listed on the October 2016 DRTRS County Summary report.

Sample Selection and Test Procedures

- Obtain the October 2016 DRTRS County Summary Report produced by the department.
- Auditors should first agree the October 2016 DRTRS County Summary Report to the district DRTRS using the above crosswalk.
- Any discrepancies should be noted on the ASSA Schedule of Audited Enrollments.
- Review the district’s DRTRS District Summary Report (page 5) to determine whether students on hazardous routes were reported (Indicated by a number >0 on the last line of the district profile: “The number of resident students who are receiving Non-Mandated transportation and would be required to walk to and from school along a route designated as a hazardous route by the local school district (pursuant to N.J.S.A. 18A:39-1.5)”. If such transportation is provided, determine whether the district has a board of education-approved hazardous busing policy. (N.J.S.A. 18A:39-1.5)
- Auditors are also required to perform verification procedures on the district’s detailed transportation report, “October 2016 DRTRS Student Summary” against the DRTRS as required throughout this section of the Audit Program.
 - The “Download Submitted Students” Report will display an Excel spreadsheet that will also be available to authorized school district staff. The workbook may be sorted by the auditor or by authorized school district personnel to provide the specific student information.
 - The “Download Student File by Summary Line” Report will display an Excel spreadsheet showing the student data and the line number on which each student is recorded on the software generated DRTRS District Summary Report. To utilize this report, sort on the last column (DRTRS Summary Line#) to view all students recorded on a specific summary line. Note: Students transported to more than one location are designated by the line number followed by _0.5 (e.g. A2_0.5).

- The “Download Student File by Attending School” Report will display all students assigned to each of the attending schools reported by the district in a PDF format.

October 2016 DRTRS County Summary Report (Regular Public) & 2016-17 DRTRS District Summary Report (Part A - Eligible Regular Students lines 1. – 5. and Non-Public/Other Students Transported and Non-Public AIL lines 6. and 7.

Eligible Regular Students as reported on the October 2016 DRTRS County Summary Report (in the column titled, “Regular Public” should include only pupils from the 2016-17 DRTRS District Summary Report, Part A, “Eligible Regular and In-District Special Education Students without Special Transportation Needs” inclusive of lines 1, 2, 3, 4 and 5. Please note that regular preschool students, reported in Part A line 1, are counted as eligible for transportation aid only if the district qualifies for preschool education aid (PEA) pursuant to *N.J.S.A. 18A:7F-54* and the student meets the on-roll and remote mileage requirement of 2.1 miles or more.

Verify the on-roll status as of October 14, 2016 of students reported in Part A. lines 1, 2, 3, 4, and 5 of the 2016-17 DRTRS District Summary Report against the school register(s) as follows:

- Trace the public school students to the school registers.
- Note that Share Time students (student who attend a share time program to more than one school) are identified on the NJDOE DRTRS detailed report by Half Day Programs = “Y”; and are included in the data sort of the Excel workbook, “DRTRS Summary Line #”_0.5²² (e.g. A2_0.5). For charter school students reported on line 4 “Transported Charter School Students” or on line 5 “AIL Charter School Students” of the 2015-16 DRTRS, verify that a 2016-17 transportation application form “The Charter School Application for Transportation” is on file and received by the district on or before October 14, 2016.
- Examine the Charter School Application for Transportation Services for proper signature by the Chief School Administrator or Lead Person of the charter school.
 - Trace the charter school students listed on lines 4 or 5 the 2016-17 DRTRS District Summary Report to the 2016-17 school register(s). Trace Share Time students (students who attend a share time program to more than one school) by Half Day Programs = “Y”;
- For choice school students included as regular public school students on line 2 “Public School Students Excl. Voc. Students” of the 2016-17 DRTRS District Summary Report, verify that a 2016-17 transportation application form “The Choice School Application for Transportation” is on file and received by the district on or before October 14, 2016.

Verify the entries on line 6 “Transported Non-Public and Other School Students” and on line 7 “AIL Non-Public and Other School Students” of the DRTRS District Summary Report:

- Verify that the transportation application form “B6T” for nonpublic school students reported on the DRTRS District Summary Report is on file and received by the district on or before October 15, 2015.
- Verify that the B8T certifications for the first and second semester are on file to ensure the student is on roll in the nonpublic school.

All errors noted during the verification of the on- roll status of students reported on the DRTRS, require recalculation of the average mileage with corrections of those errors factored in. The current format includes two lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School mileage Excluding Grade PK. The auditor does not need to make two computations when computing average mileage: (one that includes regular pre-kindergarten students and one without those students) since this information is provided in the revised report. Note that a common reconciling difference may be due to Vocational Technical shared time students counted twice.

October 2016 DRTRS County Summary Report (Regular Special Education & 2016-17 DRTRS District Summary Report (Part A. In-District Special Education Students without Special Transportation Needs – Lines 8, 9, and 10.)

Part A. Eligible In-District Special Education Students without Special Transportation Needs, includes pupils in the 2016-17 DRTRS District Summary Report on lines 8, 9, and 10. The total of lines 8, 9, and 10 must match the “Regular Special Education” column of the October 2016 DRTRS County Summary Report.

Please note that regular special education preschool students are counted as eligible for transportation aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more for S1 grade levels (students whose age matches PK through grade 8) or 2.6 miles or more for S2 grade levels (students whose age matches grades 9 through 12) or whose Individualized Education Program (I.E.P.) requires transportation, regardless of whether the district qualifies for PEA pursuant to *N.J.S.A. 18A:7F-54*.

An in-district special education student that has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P. that does not include a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P. specifically requires the student to be transported.

In order to verify on roll status for students presented on line 8 of the DRTRS District Summary Report (as of October 14, 2016):

- Trace the special education public school students listed on line 8 of the 2016-17 DRTRS District Summary Report and detailed on the “October 2016 DRTRS Student Summary” to the 2016-17 school register(s) to verify on roll status. Trace Share Time students (student who attend a share time program to more than one school) by Half Day Programs = “Y”;
- Trace the special education charter school students listed on line 9 of the 2016-17 DRTRS District Summary Report and detailed on the “October 2016 DRTRS Student Summary” to the “The Charter School Application for Transportation” form that should be on file and received by the district on or before October 14, 2016.
- Private School Students with Disabilities listed line 10 of the 2016-17 DRTRS District Summary Report and detailed on the “October 2016 DRTRS Student Summary” should be verified with a valid tuition contract and October 2016 tuition voucher.

If any errors are noted during the verification of the on-roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. As noted above, the report has two separate lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School Mileage Excluding Grade PK. The auditor does not need to perform two computations when computing average mileage: one that includes regular pre-kindergarten students and one without those students since that information is in the report.

2016-17 DRTRS District Summary Report Part B. Eligible Special Education Students with Special Transportation Needs (Lines 1 through 3) & Special Education Students without Special Transportation Needs (Lines 6 through 8) Reported on the October 2016 DRTRS County Summary Report as “Special Education Special Needs”

Eligible Special Education Students includes all special education students transported outside the district and those with special transportation needs. The “Special Education Special Needs” column of the October 2016 DRTRS County Summary Report includes pupils included in the school’s DRTRS District Summary Report on lines 1, 2, 3, 6, 7, and 8 of Part B (“Eligible SPECIAL EDUCATION STUDENTS

with Special Transportation Needs and Out of-District Special Education Students without Special Transportation Needs").

Auditor's note: Special education pre-kindergarten students are counted as eligible for transportation aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more for S1 grade levels (students whose age matches PK through grade 8), or 2.6 miles or more for S2 grade levels (students whose age matches grades 9 through 12), or whose I.E.P. requires transportation regardless of whether the district qualifies for PEA pursuant to *N.J.S.A. 18A:7F-54*.

A special education student who has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P. that includes a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P. specifically requires the student to be transported. In order to verify on roll status as of October 14, 2016, trace public school students to the school registers.

In order to verify students presented on lines 1, 2, 3, 6, 7, and 8 of the DRTRS District Summary report (PART B.) as of October 14, 2016:

- Trace the special education public school students with special transportation needs listed on line 1 of the 2016-17 DRTRS District Summary Report and detailed on the "October 2016 DRTRS Student Summary" to the 2016-17 school register(s) to verify on-roll status and trace special transportation need to the individual I.E.P. Trace Share Time students (students who attend a share time program to more than one school) by Half Day Programs = "Y";
- Trace the special education charter school students with special transportation needs listed on line 2 of the 2016-17 DRTRS District Summary Report and detailed on the "October 2016 DRTRS Student Summary" to the "The Charter School Application for Transportation" form that should be on file and received by the district on or before October 14, 2016.
- Trace the Private School Students with Disabilities listed line 3 of the 2016-17 DRTRS District Summary Report and detailed on the "October 2016 DRTRS Student Summary" to a valid tuition contract and October 2016 tuition voucher.
- Trace the special education out-of-district public school student without special transportation needs listed on line 6 of the 2016-17 DRTRS District Summary Report and detailed on the "October 2016 DRTRS Student Summary" to a valid tuition contract and October 2016 tuition voucher.
- Trace the special education out-of-district charter school student without special transportation needs listed on line 7 of the 2016-17 DRTRS District Summary Report and detailed on the "October 2016 DRTRS Student Summary" to "The Charter School Application for Transportation" form that should be on file and received by the district on or before October 14, 2016.
- Trace the special education out-of-district Private School Students with Disabilities without special transportation needs listed on line 8 of the 2016-17 DRTRS District Summary Report and detailed on the "October 2016 DRTRS Student Summary" to a valid tuition contract and October 2016 tuition voucher.
- Note that Share Time students (students who attend a share time program to more than one school) are identified on the NJDOE DRTRS detailed report by Half Day Programs = "Y"; and are included in the data sort of the Excel workbook, "DRTRS Summary Line #". _0.5²² (e.g. A2_0.5).²²

If any errors are noted during the verification of the on-roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in.

Additional Audit Procedures - Transportation

The following procedures regarding transportation must also be performed:

- (1) Verify that invoices for purchases of goods and services are transportation related.
- (2) Verify that bid specifications for bus purchases were properly bid and awarded in accordance with N.J.S.A.18A:18A-1 et seq.
- (3) Verify that leases for school buses do not exceed ten years (N.J.S.A. 18A:18A-42(f)).
- (4) Verify that transportation contracts and renewals are properly prepared and contain all necessary documents and affidavits. A list of the necessary documents can be found in the “PT-1 Student Transportation Documents Checklist” found at: <http://www.state.nj.us/education/finance/transportation/contracts/>
- (5) Verify that B7T (Request for Payment of Transportation Aid) forms completed by students’ parents or legal guardians are on file for nonpublic school students whose parents or legal guardians received aid-in-lieu of transportation. The 2016-17 DRTRS District Summary Report, part A, Line 7, “AIL Non-Public and Other School Students” can be sorted in the DOE provided Excel workbook by selecting line A7 from the sort box for “DRTRS Summary Line #”. Verify that the B8T certifications for the first and second semester are on file to ensure the student is on roll in the nonpublic school.
- (6) Verify that requests for transportation aid vouchers completed by students’ parents or legal guardians are on file for charter school students whose parents or legal guardians received aid-in-lieu of transportation. The 2016-17 DRTRS District Summary Report, part A, Line 5 “AIL Charter School Students” can be sorted in the DOE provided Excel workbook by selecting line A5 from the sort box for “DRTRS Summary Line #”.
- (7) Review both regular and special needs student transportation expenditures
 - Determine whether expenditures are reasonable and consistent relative to the applicable count on the DRTRS.
 - For the sample expenditures, determine whether the expenditure is supported by a county-approved contract.
- (8) If the balance in the general ledger account for Contract Services (Other Than Between Home & School) is greater than \$18,800, determine whether bids were obtained and a county approved contract was available. (N.J.S.A. 18A:39-2 and 39.3 and N.J.A.C. 6A:27-9)
- (9) Reference the Transportation Aid chapter of the *State Aid/Grant Compliance Supplement*.

Required Independent Auditor Testing and Procedures to be Performed on ASSA/DRTRS/EXAID and Chapter 192/193 OFAC Audit Findings

The Department’s Office of Fiscal Accountability and Compliance (OFAC) acts on the Commissioner’s behalf in the receipt, exchange, review and investigation of information relevant to the efficient supervision of all schools in the State receiving support or aid from federal and/or State appropriations; N.J.S.A. 18A:4-23. The office performs investigations and many auditing functions, including full scope audits of ASSA, DRTRS, EXAID, and Chapter 192/193 State Aid entitlements. The independent auditor is required to perform follow-up tests and procedures, as necessary, to determine that findings contained in audit reports issued by the OFAC have been properly addressed and resolved. The conclusions drawn from the follow-up tests and procedures performed on OFAC findings by the independent auditor where the district is subject to a federal and/or state single audit must be summarized in the Federal and/or State Financial Assistance Findings and Questioned Costs (Section III) of the Schedule of Findings and Questioned Costs. When the school district or charter school is not subject to a federal and/or state single audit, the status of the OFAC findings, if material, should be addressed in the Schedule of Findings and Responses. The AMR must include follow-up comment(s) whether considered material or not material.

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SECTION I – GENERAL COMPLIANCE
CHAPTER 4

BUDGET & TRANSFERS

The Budget

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

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

- a. The Board of School Estimate in districts in which that body fixes and determines the tax levy;
- b. The electorate in those districts in which the tax levy was voted upon at the annual school election;
 - b1. For a district that has moved the April school board election to November, there is not a vote on the school district's base budget within the levy cap. Use the original budget certified by the board of education or board of school estimate and approved by the executive county superintendent. (Adjusted where there is an approved November separate proposal).
- c. The municipal governing body or bodies where items were rejected by the electorate;
- d. The act of the Commissioner in the event the governing body or bodies of such municipalities fail to certify.

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

N.J.S.A. 19:60-1.1 permits a board of education, a municipal governing body, or voters to move the April annual school board election to the date of the November general election thereby eliminating the vote on the annual base budget. Whether or not a district's annual school board election date has been moved to November, the dates for submission of the budget, advertising, or public hearing have not been changed.

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

Budgeted Loans From the State Pursuant to N.J.S.A. 18A:7A-56– School Districts Only:

N.J.S.A. 18A:7A-56 permits the State to provide a loan to ensure the provision of a thorough and efficient education to those school districts for which a State monitor has been appointed. This loan is made in the

form of an advance in school district state aid. Repayment is done through incremental withholding of future State Aid payments over pre-approved repayment terms not to exceed ten years. Auditors are required to inquire if the school district has received an advance loan of state aid and review all applicable documentation. Additionally, the auditor is required to verify the proper accounting treatment of the advance loan.

Auditors of school districts with State-appointed monitors are instructed to verify that the Salaries of Fiscal Monitors was reported on line 45030, account number 11-000-230-180. This line was added to accumulate costs and facilitate the exclusion of fiscal monitor costs from the calculation of the administrative cost limit. This line in budget and Audsum may only be used by school districts with state-appointed fiscal monitors.

Budget Transfers

School district auditors should be aware that on Tuesday, July 4, 2017, Governor Christie signed the Fiscal Year 2018 state budget, which includes revised 2017-18 state aid for school districts. The Department prepared and issued revised 2017-18 state aid notices dated July 14, 2017. In her [Broadcast](#) dated July 14, 2017, the Commissioner granted approval through August 1, 2017 to district boards of education/boards of school estimate that received a revised state aid notice indicating a *decrease* to state aid to transfer additional unassigned general fund surplus into the 2017-18 budget. Allowable transfers are those authorized by board resolution through August 1, 2017 made to provide the resources necessary to offset the reduction to 2017-18 state aid revenue. The amount of the transfer/increase from surplus cannot exceed the loss of the state aid. Applicable to the June 30, 2017 year-end audit of fund balance for districts with a *decrease* to their 2017-18 state aid, the district board of education may have utilized this option to appropriate additional general fund surplus by board resolution (no later than August 1, 2017) into the 2017-18 revised budget.

Auditors are encouraged to consult GASBS No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* paragraphs 8 – 15 for reporting requirements regarding subsequent events. As addressed above, the revised state aid notices and related guidance became available subsequent to the June 30, 2017 year-end. Accordingly, the condition that may result in the use of additional general fund surplus did not exist at the date of the statement of net assets; but arose subsequent to that date. The Department is recommending the appropriation of any additional general fund surplus subsequent to June 30, 2017 and prior to August 2, 2017 should not result in adjustment of the financial statements (paragraph 10 of GASBS No. 56). However, the Department has determined that any additional use of June 30, 2017 general fund surplus in the 2017-18 budget is of a nature that disclosure is essential to a user's understanding of the financial statements. Please refer to page III-4.35 through III-4.45 for illustrative excess surplus calculations.

N.J.S.A. 18A:22-8.2(3)(a) provides that no transfer may be made from appropriations or surplus accounts for interest and debt redemption charges.

Adult education fees are limited to adult education program expenditures and may not be transferred elsewhere. (*N.J.S.A.* 18A:50.6)

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

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A board of education/board of trustees may not approve encumbrances or expenditures that will create

deficits in line items. A board of education/board of trustees may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances and pursuant to *N.J.A.C. 6A:23A-13.3*. A board of education/board of trustees may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers approved by the chief school administrator shall be reported to the board, ratified, and duly recorded in the minutes at a subsequent meeting of the board but not less than monthly.

For all line-item transfers from an advertised appropriation account as defined under *N.J.A.C. 6A:23A-13.3(e)*, a two-thirds affirmative vote of the authorized membership of the school board is required pursuant to *N.J.S.A. 18A:22-8.1*.

Line-item transfers from an advertised appropriation account as defined under *N.J.A.C. 6A:23A-13.3(e)* which on a cumulative basis exceed 10 percent of the amount included in the original budget, require Executive County Superintendent approval. A transfer request is deemed approved after 10 working days of receipt by the county superintendent when no written approval or denial is provided within that timeframe. The burden is on the district to provide supporting documentation of receipt by the county superintendent. *N.J.A.C. 6A:23A-13.3(f)*

Line-item transfers to an advertised appropriation account identified as general administration, school administration, central services and administrative information technology or other support services that, on a cumulative basis, exceed 10 percent of the amount included in the original budget, require county superintendent approval. *N.J.A.C. 6A:23A-13.3(g)*

In addition to the above noted transfers, transfers to capital outlay excluding equipment (for non-referenda projects; all transfers to referenda projects require voter or board of school estimate approval) require approval by the executive county superintendent and may be approved only to supplement a capital project previously approved by the voters or board of school estimate for an “emergent circumstance.” *N.J.A.C. 6A:23A-13.3(h)*

N.J.A.C. 6A:23A-13.3(i) states that each district shall maintain a report of current month and year-to-date transfers between advertised general fund appropriation accounts as defined in *N.J.A.C. 6A:23A-13.3* in a format prescribed by the Commissioner or in a format developed locally and approved by the county superintendent. Districts were able to access a sample transfer worksheet and accompanying instructions for monthly completion it at: <http://www.state.nj.us/education/finance/fp/af/transfer/>

Pursuant to *N.J.A.C. 6A:23A-13.3*, departmental approval is required for appropriation of surplus or other unbudgeted or underbudgeted revenue except for specific revenue sources identified in the administrative code (*N.J.A.C. 6A:23A-13.3(d)*). The six specified revenue sources are as follows:

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

- Any revenue amount excluded from the excess surplus calculation in the prebudget year.

Prior to April 1 of the fiscal year, appropriation of surplus or other unbudgeted or underbudgeted revenue (except for those exempted under *N.J.A.C. 6A:23A-13.3(d)*) is not permitted unless by a two-thirds affirmative vote of the authorized membership of the school board petitioning the Commissioner for approval of an “emergent circumstance.” The district is required to submit to the department, board certification of an emergent circumstance that cannot be addressed and completed with current appropriations, and a copy of the most current board secretary report.

Between April 1 and June 30 of the fiscal year, county superintendent approval and two-thirds affirmative vote of the authorized membership of the school board are required for the appropriation of surplus or other unbudgeted or underbudgeted revenue. The district is required to submit to the department, board certification that the appropriation is necessary to achieve the thoroughness standards and a copy of the most current board secretary report. (*N.J.A.C. 6A:23A-13.3(b)*)

Budgeted appropriations are also deemed restricted when associated with an additional spending proposal (*N.J.A.C. 6A:23A-12.13(a)11*).

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

Restriction on capital outlay transfers (additional spending proposals)

Districts that presented an additional spending proposal to the voters or board of school estimate are subject to the provisions of *N.J.A.C. 6A:23A-8.5*. The entire capital outlay portion of the budget (including equipment) of districts with an approved additional spending proposal for capital outlay is restricted and funds cannot be transferred between (from/to) capital outlay and current expense. See page II-10.27 of this Audit Program for further guidance in this situation.

Transfers to capital projects fund and transfers of unexpended bond proceeds

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

Transfers to food service fund

In situations where a district/charter school charges for meals or receives state or federal meal subsidies, the activity of its food service operations must be accounted for in an enterprise fund. Districts/charter schools have been provided accounting guidance in Chapter 14 of the *GAAP Technical Systems Manual*. All costs related to the program must be shown in the enterprise fund. Any board contribution, including the payment of certain salaries or other identified specific expenditures should be budgeted and expended as a transfer to cover deficit in account 11-000-310-930. A separate line has been provided in the audsum for this account. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer. Note that as of year-end 2012, the balance in the account, “General Fund Transfers to Food Services” is not an adjustment to the excess surplus calculation.

Transfers to/from Reserve Accounts

Capital Reserve

N.J.S.A. 18A:7G-31(c), *N.J.S.A. 18A:7G-13*, and *N.J.A.C. 6A:23A-14.1* (capital reserve) and *N.J.A.C. 6A:23A-14.2* (maintenance reserve) permit districts, by board resolution, to transfer undesignated general fund balance to either the capital reserve account or maintenance reserve account if approved in the district's original budget certified for taxes or if the district received voter approval by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A. 19:60-2*. *N.J.S.A. 18A:7F-41(a)*, *18A:7F-41(b)* and *N.J.A.C. 6A:23A-14.3* permit a district board of education or board of school estimate to transfer by board resolution at year end (resolution prior to June 30) any unanticipated revenue or unexpended line-item appropriation amounts, or both, to the capital reserve or the maintenance reserve account for withdrawal in subsequent school years.

Current Expense Emergency Reserve

N.J.S.A. 18A:7F-41c(1), effective for years beginning July 1, 2007, provides that districts may establish a current expense emergency reserve account and appropriate funds in the district's annual budget or through a transfer by board resolution at year end of any unanticipated revenue and unexpended line-item appropriation amounts. The account balance is not to exceed \$250,000 or one percent of the district's general fund budget up to a maximum of \$1,000,000, whichever is greater. Districts were first permitted to establish an emergency reserve fund through the 2008-09 budget process and deposits may be made to the emergency reserve account at budget time, or by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. *N.J.A.C. 6A23A-14.4* defines year end for purposes of depositing surplus into reserve accounts as an amount approved by the district board of education between June 1st and June 30th. Withdrawals require approval by the Commissioner unless the withdrawal is necessary to meet an increase in total health care costs in excess of 4 percent or the withdrawal is included in the original budget certified for taxes to finance school security improvements to school facilities pursuant to *18A:7G-6(c)1*. Additional guidance is available at this website - <http://www.nj.gov/education/finance/fp/af/EmergencyReserveGuidance.pdf>.

Debt Service Reserve

N.J.S.A. 18A:7F-41c(2), effective for years beginning July 1, 2007, provides that districts may establish a debt service reserve account in the debt service fund for proceeds from the sale of district property. Transfers may not be made to the reserve account if a district does not have any outstanding debt. The funds are to be used to retire outstanding debt obligations of the district within the lesser of five years from its inception or the remaining term on the obligations. Any remaining balance must be appropriated in the general fund budget. *N.J.A.C. 6A:23A-14.4* clarifies the term "property."

Tuition Reserve

N.J.A.C. 6A:23A-14.4(a)(3) permits the district to establish a tuition reserve in the general fund at June 30 by board resolution for up to 10 percent of the estimated tuition cost in the contract year for an anticipated tuition adjustment in the second year following the contract year. The code also requires that the district transfer to the general fund, by board resolution, any interest earned on the investments in a tuition reserve account on no less than an annual basis. Refer to page II-10.36 for additional information on tuition reserve.

Impact Aid Reserves

P.L.2015, c.46, effective May 7, 2015, amended *N.J.S.A. 18A:7F-41* to permit a board of education or board of trustees to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. *N.J.S.A. 18A:7F-41*, as amended, provides for the creation of an Impact Aid General Fund Reserve account and an Impact Aid Capital Fund Reserve. A board of education or a board of school estimate, as appropriate, may through the adoption of a board resolution appropriate federal impact aid funds to establish or supplement the reserve account in the district's annual budget, or through a transfer by a two-thirds affirmative vote of the authorized membership of the board between June 1 and June 30 of the fiscal year, for withdrawal in any subsequent school year. Transfers to the impact aid reserves shall not exceed the total amount of federal impact aid received, by federally designated category, i.e. general fund or capital, in the fiscal year. The board, at its discretion, may use

the funds in the reserve accounts to finance the district's general fund or to finance school facilities projects, in a manner consistent with federal law. The total amount of funds on deposit in the reserve account shall not be limited. All reserve accounts shall be established and held in accordance with GAAP and shall be subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required, however, a separate identity for each reserve account shall be maintained.

Interfund balances

Districtwide statements/Schoolwide (accrual basis)

GASBS 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Position* (GASBS 63) except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Position* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the "doubling-up" effect of internal service fund activity.

Funds statements (modified accrual basis)

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

Interfund Note disclosures

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

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

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

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

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

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

BIDS & CONTRACTS/PURCHASING

(Note: Sections of this chapter are not applicable, by statute, to renaissance school projects)

The following section is not applicable to renaissance school projects

Applicable Thresholds

<http://www.nj.gov/dca/divisions/dlgs/lfns/15/2015-20.pdf> Local Finance Notice (LFN) 2011-16 *The Qualified Purchasing Agent Law and Boards of Education*, issued by the Department of Community Affairs (DCA) on May 5, 2011, provides current guidance to boards of education/charter school board of trustees concerning bid thresholds and the issuance of Qualified Purchasing Agent (QPA) certificates. LFN 2015-20 *Adjustment of Public Bidding Threshold July 1, 2015* was also issued by the DCA on September 28, 2015, and provides that effective July 1, 2015 under the Public Schools Contracts Law (N.J.S.A. 18A:18A-2), boards of education/charter school board of trustees operating without a QPA have a \$29,000 maximum bid threshold for contracting. LFN 2015-20 provides that boards of education/charter school board of trustees that have appointed a QPA pursuant to N.J.S.A. 40A:11-9(b) may have their maximum bid threshold increased to \$40,000 as of July 1, 2015 pursuant N.J.S.A.18A:18A-3(a).

LFN 2010-13R also provides that effective July 1, 2010, the maximum threshold for quotations for a board of education/charter school board of trustees without a QPA is \$3,900; and for a board with a QPA the maximum threshold for quotations is \$5,400.

Electric and Natural Gas Supply Procurement (Also refer to the “Energy” section below)

LFN 2012-12 *Electric and Natural Gas Supply Procurement Guidance* was issued by the DCA on July 16, 2012 and is available on the DCA website at <http://www.nj.gov/dca/divisions/dlgs/lfns/12/2012-12.pdf>. The LFN provides information on the procedures that school districts must follow in shopping for electric and natural gas supply from third party suppliers unless the supply is being purchased from the public utility under BPU-regulated tariffs. The LFN also addresses cooperative pricing and the “E-Procurement Pilot Program”.

N.J.S.A. 18A:18A-4.6 regarding energy savings contracts permits, under certain circumstances, a board of education facility alteration required to properly implement other energy efficiency or energy conservation measures, or both, to be included as part of an energy savings services contract. Also permits an energy savings services contract to provide or perform goods or services to extend for a term of up to 15 years for energy efficiency projects and up to 20 years for a combined heat and power facility after construction completion.

Third Party Vendors

The New Jersey Office of the State Comptroller (OSC) found that in a sampling of entities, including a school district, that there is a practice of Third Party Administrators (TPAs) for worker’s compensation claims utilizing undisclosed side agreements with Third Party Vendors which require payments back to the TPA (from the vendor) resulting in hidden costs to the insured (school district). The OSC issued

recommendations to be followed in procuring workers' compensation TPA services. Auditors should verify compliance with the recommendations on pages 2-3 of the October 2012 OSC report available at: http://www.nj.gov/comptroller/news/docs/comptroller_alert.pdf

Emergency Contracts

N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing of the circumstances and the need to invoke such action. Pursuant to this statute, districts/charter schools must also comply with the implementing regulations at *N.J.A.C.* 5:34-6.1 and *N.J.A.C.* 6A:26-3.16.

Recovery and Rebuilding Projects

Sandy Recovery and Rebuilding - Integrity Monitor Act

*N.J.S.A.*52:15D-1, identified as the "Integrity Monitor Act" is applicable to school districts and requires the deployment of integrity oversight monitors in implementation of certain recovery and rebuilding projects. The Integrity Monitor Act requires that a governmental entity that is a party to a recovery and rebuilding project contract shall notify the State Treasurer on a form prescribed by the State Treasurer of such contract, describing the project, the parties thereto, and the funding source for the project costs. Although the law requires monitors for contracts over \$5 million, it provides discretion to the State Treasurer for projects under \$5 million. Accordingly, for any project in excess of \$2 million notification must be provided to the Department of the Treasury

[Locals and Authorities - Integrity Monitor Guidance.pdf](#)

National Cooperative Contracts

LFN 2012-10 *Using National Cooperative Contracts: Application of P.L. 2011, c. 139* was issued by the DCA on May 14, 2012 and is available on the DCA website at <http://www.state.nj.us/dca/divisions/dlgs/lfns/12/2012-10.pdf>. Approved and effective on November 7, 2011, *N.J.S.A.* 52:34-6.2 allows boards of education/charter school board of trustees to utilize national cooperative contracts as a method of procurement.

Other Guidance

LFN 2010-3, *Guidance on Current Issues in Local Government and Board of Education Procurement*, was issued during January 2010 by the DCA and provides guidance related to public procurement practices and law. Matters specific to Public School Contracts Law include:

- Political Contribution Disclosure Regulations for Boards of Education. To facilitate the disclosure of contributions to board members by vendors, boards of education are required to update their contracting procedures to adapt the Business Entity Disclosure Certification (BED-C) or extend the use of the Political Contribution Disclosure form to all contracts by including one of the forms in all bid specifications, RFPs and RFQs. (*N.J.A.C.* 6A:23A-6.3)
- Competitive Contracting for School and Professional Development Services (*N.J.A.C.* 5:34-4.4)
- Clarified Board of Education Procurement Rules for Professional Services (*N.J.A.C.* 6A:23A-5.2(a))
- Boards of Education Federal Procurement Requirements

LFN 2008-9 was issued in April 2008 by the DCA and provides updated information and instructions regarding the use of online auctions to sell personal surplus property. Since the introduction of the pilot program pursuant to P.L. 2001, c.30, DCA's Division of Local Government Services (DLGS) has approved several internet-based vendors for such online auctions. For more detailed information

regarding this process, please read the LFN, which is available at: http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html

LFN 2007-12 with updated information regarding prevailing wage laws (see Page 2): http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html N.J.S.A. 34:11-56.26 extends prevailing wage requirements to contracts for “maintenance-related projects” over \$50,000.

LFN 2006-21 http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html provides guidance for P.L. 2006, c.96 (Prompt Payment Law) that was signed by the Governor on September 9, 2006. This law concerns the prompt payment of construction contracts and affects construction-related contracts of districts that took effect after September 1, 2006. The law is codified as N.J.S.A. 2A:30A-1 et seq. and affects all contracts for “improvements” regardless of dollar amount.

LFN 2006-3 and 2007-11 provide guidance to assist boards of education/board of trustees and their legal counsel in complying with P.L. 2005, c. 271 (Pay-to Play Law) that was signed into law on January 5, 2006. These notices, and other pay-to-play documents, are posted on the DLGS Pay-to-Play website at: http://www.state.nj.us/dca/divisions/dlgs/programs/pay_2_play.html A key element of this law allows boards of education/board of trustees to adopt their own pay-to play laws (N.J.S.A. 40A:11-51). A second, equally important element requires disclosure of political contributions by any business entity bidding or negotiating thereon for certain purchases over \$17,500 that are not publicly bid (N.J.S.A. 19:44A-20.26). The requirement to seek the approval of the State Treasurer prior to completing an emergency purchase for goods or services in accordance with N.J.S.A. 19:44A-20.12 is not applicable to boards of education.

During January 2016, the State of New Jersey, Department of the Treasury, Division of Purchase and Property, Contract Compliance and Audit Unit issued *Public Agency Guidelines for Administering Equal Employment Opportunity and Affirmative Action in Public Contracts*. These guidelines are available on Treasury’s website at:

http://www.state.nj.us/treasury/contract_compliance/pdf/pa.pdf

The guidelines assist all public agencies, including school districts, charter schools and renaissance school projects with compliance with Equal Employment Opportunities law (N.J.S.A. 10:5-31 et seq.).

The specific language illustrated in Exhibit A of the aforementioned guidelines, must be included in all bid advertisements (N/A to renaissance school projects), contracts awarded under an exemption from public bidding (N/A to renaissance school projects), and contracted entered into by school districts, charter schools and renaissance school projects with vendors for the purchase of goods, professional services, and general services. For all construction contracts, school districts, charter schools and renaissance school projects must include the affirmative action language illustrated in Exhibit B. For districts and charter schools, all successful bidders for goods, professional services and general services contracts are required to submit evidence of appropriate affirmative action compliance to the Division and the awarding school district or charter school. For construction contracts, evidence must be submitted to the Department of Labor and Workforce Development and the awarding school district, charter school and renaissance school project.

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

Highlights of N.J.S.A.18A:18A (Public School Contracts Law) (the following section is not applicable to renaissance school projects)

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law) and links to the associated rules can be found at: http://www.nj.gov/dca/divisions/dlgs/programs/ps_contracts.html

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

N.J.S.A. 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. There is a higher threshold when there is a “Qualified Purchasing Agent” (QPA) in the district/charter school as defined at *N.J.A.C.* 5:34-1.1 and certified upon approval of an application submitted to DCA. Pursuant to *N.J.S.A.* 18A:18A-3(b), the bid threshold may be adjusted by the Governor, in consultation with the Department of Treasury, every five years.

Effective July 1, 2010 the bid threshold for districts/charter schools without a QPA was \$26,000.

For districts/charter schools that have a QPA, the bid threshold is \$36,000 as of July 1, 2015.

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

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

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

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

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

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

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

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

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

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

N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing of the circumstances and the need to invoke such action. Pursuant to this statute, districts/charter schools must also comply with the implementing regulations at *N.J.A.C.* 5:34-6.1 and *N.J.A.C.* 6A:26-3.16.

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

N.J.S.A. 18A:18A-15 addresses general specifications for goods/services primarily in the following areas:

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

N.J.S.A. 18A:18A-21 addresses the requirements for advertising bids and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. *N.J.S.A.* 18A:-18A-21 makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids. *N.J.S.A.* 18A:18A-21(a) (No-Bid Monday Law) prohibits the receipt of bids on Mondays or any day

following a state or federal holiday. Auditors and district administrators should review Local Finance Notices 2011-38 and 2013-01 at:

http://www.state.nj.us/dca/divisions/dlgs/resources/local_fin_notices.html provides current guidance and 2012-2013 Tables of Bid Holiday Acceptance Dates.

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

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

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

Subsection (c) describes the requirements for small purchases.

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

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

Pursuant to *N.J.S.A.* 18A:39-3, the threshold for bidding of transportation contracts for fiscal year 2016-17 is \$18,800. 18A:18A:49.1 states, “the provisions of this chapter shall not apply to contracts for the transportation of pupils to and from school, which contracts are regulated by Chapter 39 of this Title.”

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

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

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	40
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	7
(7) Insurance	3

(8) Leasing of equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Voice, Data, Transmission and Switching Services	5
(12) Driver Education	3
(13) Goods and Services for the purpose of conserving energy	15
(14) Any single project for construction, reconstruction or rehabilitation of any public building for length of time authorized for completion of actual construction.	Length of Time Authorized
(15) Laundry Service	3
(16) Purchases under contract awarded by Division of Purchase and Property in Treasury	Term not to exceed term of Contract

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

N.J.S.A. 40A:11-23.1(d) provides for base and alternate bids for public works contracts over \$500,000. While the law does not amend the Public School Contracts Law, boards of education/charter school board of trustees are urged to follow its requirements to provide a higher level of contract award integrity by specifying the procedure for contracting units to select the lowest responsible bidder in instances where alternates or base bids with options are used for public works projects. It requires the bid specification to set out clear criteria or a procedure the governing body will use to select the lowest responsible bidder, given the amount of funds available for the project. *N.J.S.A.* 40A:23.1(d) applies only to projects with a value of more than \$500,000.

N.J.S.A. 18A:18A-5 provides that the purchase order relating to a contract must include a notation that the item was purchased at least 10 percent below the state contract price. Also, the board will make available to the director, upon his request, any documents relating to the solicitation and award of the contract.

N.J.S.A. 52:15C-10 requires notification be provided to the Office of the State Comptroller within twenty business days of the district's award of a contract involving consideration or an expenditure of more than \$2,000,000 but less than \$10,000,000. A district must inform the Office of the State Comptroller in writing, of the commencement of any procurement process involving consideration or an expenditure of \$10,000,000 or more at the earliest time practicable and no later than the occurrence of events specified in statute. The requirements are applicable to all procurement activities including the purchase, sale, or lease of real estate.

N.J.S.A. 18A:18A-11 permits the boards of two or more districts to include nonpublic schools located within the municipalities that comprise those school districts as a party to a joint purchasing agreement.

Energy Service Contracts

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

N.J.S.A. 18A:18A-4.6(c), Implementation of an energy savings improvement program by a board of education/charter school board of trustees, provides the authority for public school districts/charter schools to finance an energy savings improvement program through a lease-purchase agreement or through the issuance of energy savings obligations pursuant to this subsection. Effective for the fiscal year 2012-13, dedicated budget and accounting lines have been added for payments against energy savings improvement program appropriations/contracts:

- Line 17000, account number 11-000-262-444, “Lease Purchase Payments - Energy Savings Improvement Program”
- Line 17010, account number 11-000-262-837, “Interest - Energy Savings Improvement Program Bonds”

The Division of Local Government Services has published guidance on the “Implementing an Energy Savings improvement Program” P.L 2009, c.4. This can be found in Local Finance Notice 2009-11 at this website: http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html

See LFN 2012-12 *Electric and Natural Gas Supply Procurement Guidance* and P.L. 2012, c.55, approved September 19, 2012 amending 18A:18A-4.1 et. seq.; which is applicable to energy savings contracts.

The following section provides auditor guidance for evaluation of the audit client’s internal controls over purchasing and is applicable to school districts, charter schools, and renaissance school projects

Review of Purchase Orders

All public school accountants are required to give utmost consideration to encumbrances on the school district, or charter school, or renaissance school project books and records at year-end through a thorough review and analysis of open purchase orders and a search for unrecorded liabilities.

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

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

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be included in the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54) in the June 30 balance sheet. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. In most cases, any other orders should be canceled.

As documentation of the review, districts/charter schools/renaissance school projects must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund.

The total of each category 1 list must agree with the June 30 balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the June 30 balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund and included in the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54) of the June 30 Balance Sheet. Local school district/charter school/renaissance school project auditors must review the lists and their related documentation and challenge the propriety of the district's/charter school's classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

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

A purchase order represents a commitment against an appropriation. Purchase orders should not be issued without an underlying contract or actual order of goods or services. Blanket purchase orders should not be issued. The auditor's review of orders for blanket purchase orders should not be limited to purchase orders outstanding at June 30. The issuance of a blanket purchase order at any time during the year should be reported as an audit finding and recommendation in the Auditors' Management Report. For additional guidance on blanket purchase orders, auditors can review N.J.S.A. 18A:19-1 N.J.S.A.18A:2e; N.J.A.C.5:30-11.2 and N.J.A.C.5:30-11.10.

Credit Cards

Neither boards of education/board of trustees nor district/charter schools/renaissance school project officials may use credit cards for the purchase of goods and services. Statutory requirements direct how boards of education/board of trustees may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by boards of education/charter school board of trustees must comply with *N.J.S.A. 18A:18A-1 et seq.*, the Public School Contracts Law. The payment of claims by a board of education/board of trustees must also comply with *N.J.S.A. 18A:19-1 et seq.*, "Expenditure of Funds; Audit and Payment of Claims." These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to *N.J.S.A. 18A:19-13* and *N.J.A.C. 6A:23A-16.8*, a board of education/board of trustees may establish a petty cash fund on July 1 of each year, or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

P.L. 2016, c.29, approved on August 18, 2016 and effective April 1, 2017 codified as N.J.S.A. 40A:5-16.5, amended N.J.S.A. 40A:5-1 et seq. to permit school districts, charter schools and renaissance schools to utilize "standard electronic funds transfer technologies" for the payment of claims in lieu of payment through the use of signed checks or warrants. Proposed regulations are available through the New Jersey Register on or around June 19, 2017.

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SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATION

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

New Jersey statute (*N.J.S.A.* 18A:4-14) requires that New Jersey school districts/charter schools/renaissance school projects maintain bookkeeping consistent with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and with generally accepted accounting principles (GAAP), which includes a double-entry, self-balancing set of accounts and records. The New Jersey Administrative Code, *N.J.A.C.* 6A:23A, Subchapter 16 prescribes further regulation regarding the accounting.

N.J.A.C. 6A:23A-16.2(f) requires that the district board of education/ board of trustees adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2008 Edition)*. This updated Chart of Accounts (COA) can be found on the website <http://www.state.nj.us/education/finance/fp/af/coa/coa.pdf> and was effective July 1, 2009.

As in the past, the budget statement contains summarized information related to special projects/grants. The detail reflected in the minimum outline for the special revenue fund (fund 20) must be maintained in the accounting records of the district/charter school/renaissance school project for these summarized special projects. If a district/charter school opts to expand beyond the minimum outline in its chart of accounts, there must be a clear trail from the internal accounting records to the information summarized in the format of the minimum outline reflected in the budget statement. In addition, *N.J.A.C.* 6:23A-16.2(f)2 states that when a board of education/board of trustees adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a district/charter school/renaissance school project fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a school district's/charter schools/renaissance school projects maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A:4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records. The Department instead provides general descriptions of each in the technical manual. Local school district/charter school/renaissance school project auditors must be adequately familiar with the publication to perform the annual audit.

Effective for reporting periods beginning after June 15, 2015, *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* establishes the hierarchy of GAAP for state and local governments. The Statement supersedes Statement No. 55 and Statement No. 62. *GASB No. 76* is available at:

http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176166147773&acceptedDisclaimer=true

Additional references for GAAP accounting include the Government Finance Officers Association (GFOA) *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the “Blue Book” and Governmental Accounting Standards Board (GASB) statements and pronouncements.

N.J.A.C. 6A:23A-16.6 requires that district boards of education/board of trustees which contract for electronic data processing bookkeeping services shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. SSAE No. 16 is located at *Professional Standards Section AT sec. 801* available on the AICPA website at:

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00801.pdf>

SSAE No. 16 is effective for service organization auditor reports for periods ending on or after June 15, 2011. SSAE No. 16 supersedes *Statement of Auditing Standards No. 70 (SAS 70)*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

Expenditure Classifications and Reporting

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

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

The *General Fund Budgetary Comparison Schedule* (Exhibit C-1) reflects the GAAP modified accrual basis for revenues with the exception of one or more June state school aid payments, which are recognized as revenue for budgetary purposes but deferred for GAAP purposes, and GAAP for expenditures. **Original Budget column must be reflective of the original budget certified for taxes adjusted for prior year encumbrances (GASBS 34 paragraph 130a).**

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

The original budget as well as the final approved budget as of June 30 must be reported in the budgetary comparison schedules. The variance is required by NJDOE, as is the transfer column between the original and the final.

Expenditures must be checked and verified, properly authorized by the board and recorded in the minutes. Expenditure classifications must be in accordance with *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2016-17 Edition) [Chart of Accounts]*, and the terms and conditions of the grant award. Auditors should refer to Appendix C “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2016-17 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2016-17 Budget Guidelines* is the section “Detailed Appropriations Grid” which may be used as a reference tool.

The restricted entitlement Preschool Education Aid (PEA) must be accounted for and reported in the CAFR and Audsum in accordance with guidance issued by the department and addressed in the September 20, 2011 memo to districts available at:

[PreschoolEducationAidAccountingClarificationMemo.pdf](#) are three categories of preschool children funded by the various state aids. Preschool general education children are funded by PEA and recorded in the special revenue fund 20. Preschool disabled inclusion children are funded by various aid categories including equalization aid, special education categorical aid and security aid. Special revenue fund 20 is used to record and report the general education portion of the preschool disabled inclusion child. Those expenditures are funded by a transfer from the general fund to fund 20. The expenditures for support services related to the preschool disabled inclusion child's disability such as aides or other support services are recorded and reported in the general fund. Preschool disabled children in self-contained classrooms are funded by various aid categories including equalization aid, special education categorical aid and security aid. Expenditures for educating a preschool child in a self-contained classroom are recorded and reported in the general fund in the applicable program code.

Page 98 of the 2016-17 *Budget Guidelines and Electronic Data Collection Manual* provides guidance for recording and reporting preschool tuition revenue. Revenue line 725 – Tuition Preschool (20-1310) is used for tuition charged to students for whom the district was not eligible to receive Preschool Education Aid. Revenue line 730 – Preschool Tuition for LEAs (20-1320) is used for tuition charged to another school district for preschool students eligible to receive Preschool Education Aid.

An annual comparison of the *Preschool Education Aid Schedule of Expenditures* (Exhibit E-2) and Audsum will be made to ensure the expenditures reported on the Exhibit E-2 and expenditures entered into Audsum agree. All discrepancies will require auditor reconciliation and the submission of a revised Exhibit E-2 and/or retransmission of Audsum. School districts and auditors are encouraged to refer to the September 2011 memo referenced in the preceding paragraph. Auditors must verify that preschool education expenditures reported on the Exhibit E-2 match preschool education expenditures reported in Audsum.

The activity related to each restricted grant, from either local, state or federal sources must be accounted for in the special revenue fund in the minimum outline format. Summarized information related to all state and federal grants and entitlements must also be reported in the schedules of expenditures of federal awards and state financial assistance. The deferred June 2017 payments (made July 2017) for Preschool Education Aid should be recognized in the special revenue fund on the GAAP basis in 2017-18.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts and supporting guidance (e.g. Appendix C of the *2016-17 Budget Guidelines*). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23A-16.2(f)* and noted instances must be reported in the Auditor's Management Report. Auditors are directed to test the proper coding of expenditures during their review of the districts'/charter school's internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

Classification of Administrative Expenditures

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

Please note that although charter schools and renaissance school projects are not subject to the budgeted administrative cost limit as described in the above paragraph, proper classification and reporting of administrative expenditures is imperative for other fiscal use of the Audsum data by all types of public schools. The data is used for calculations such as the Taxpayers Guide to Education Spending and the Indirect Cost Rate calculations.

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

Pursuant to *N.J.A.C. 6A:23A-1.2*, administrative expenditures are defined by the department’s Taxpayers’ Guide to Education Spending and include general administration (function 230), school administration (function 240), and central services (function 25X). The coding of costs within those functions follows NJ statute (*N.J.S.A. 18A:4-14*) which requires all districts to follow NJ’s classification system (minimum chart of accounts or NJCOA) and other reporting directives and guidelines (e.g. Appendix C in the annual budget guidelines) which must be consistent with GAAP and NCES reporting requirements. Additional coding requirements are included in the regulations (*N.J.A.C. 6A:23A*) implementing *N.J.S.A. 18A:7F-5(c)*; these regulations are available at the website:

<http://www.nj.gov/education/code/current/title6a/chap23a.pdf>

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

- Administrative staff (positions that require an administrator certificate and their staff support), should be recorded in administration (function 230, 240, 25X), with the exception of positions that require a supervisory certificate. Per NCES and NJCOA, the positions of “supervisors of instruction” (which require a supervisory certificate) may be recorded in function 221, “Improvement of Instruction” as detailed in the below bullet, and are therefore, not considered administration.
- School level staff personnel that have the responsibility for supervising operations, evaluating/monitoring school staff, and coordinating school level activities are considered school administration (function 240). This includes the activities performed by the principal, assistant/vice principals, head teacher acting as a principal, director and other assistants performing these activities. An exception is the performance of monitoring and evaluation of staff as part of a supervisor of instruction function and if so, the full salary of the supervisor of instruction can be accounted for in function 221. However, if the majority of the supervisor of instruction position is performing administrative duties such as monitoring, supervising and evaluation, hiring, and budget preparation, then all or that majority portion of the position should be recorded in school administration. Per NCES and NJCOA, evaluation and monitoring of staff is considered school administration unless performed by a supervisor of instruction, and cannot be allocated to improvement of instruction.
- Administrative staff time dedicated to direct instruction as part of the regular curriculum (i.e. teaching classes on a day-to-day basis) may be allocated to the applicable direct instruction function with the appropriate supporting documentation (e.g. schedules and class rosters). The

one exception is a principal’s salary which cannot be allocated to direct instruction unless the district obtained specific County Superintendent approval since New Jersey regulations (*N.J.A.C. 6:3-1.6(c)*) require every school to have a full time non-teaching principal unless approved by the County Superintendent.

- Superintendents, Business Administrators, and Principals/Vice Principals should not be allocated to support functions. Other administrative positions are deemed to be administration unless it can be demonstrated that the position is clearly dedicated to a specific service area; appropriate documentation should be available to support an allocation, such as caseload information for allocation to guidance/counseling, function 218, “other support services – regular.”
- Full time department chairpersons should be recorded in school administration and any stipends received by teachers to perform chairperson duties part time should also be recorded in school administration. Department directors are considered school administration and per NJCOA, directors for special education/student services, guidance and athletics should be recorded in school administration.
- Work of staff that supports administration should be recorded in administration. In accordance with NCES and NJCOA, this includes all central office, school office, business and administrative technology non-certificated staff, as well as clerical staff that support teaching duties.

<p>The following table provides general guidance for classification of administrative certificated staff.</p> <p>Any administrative salary may be allocated to direct classroom instruction if the position is part of the regular teaching curriculum of the district, except for the principal function since a full time principal is required unless the district has received County Superintendent approval. Proper documentation must be maintained to support the allocation, such as a formal teaching roster, schedule or similar document.</p>		
Function	Description	
General Administration	Used to record costs associated with establishing and administering policy.	
Account	Title	Coding Guidance
11-000-230-100	Superintendent	Record full salary here unless performing principal function.
11-000-230-100	Assistant Superintendent	Record full salary here unless function dedicated to a specific support area. May be allocated to specific support function with proper documentation.
Function	Description	
School Administration	Used to record costs associated with supervision of school operations, evaluation of staff and supervision and maintenance of school records.	
Account	Title	Coding Guidance
11-000-240-103	Principal/Vice Principal	Record full salary here unless performing superintendent function.
11-000-240-104	F/T Department Chairs	Record full salary here.

Function	Description	
Central Services	Used to record costs associated with the business function and costs that support research and development, planning, evaluation, information services, data processing services and staff services.	
Account	Title	Coding Guidance
11-000-251-100	Business Administrator	Record full salary here.

Reclassification of Miscoding

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

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

In addition, special revenue fund coding errors are not considered questioned costs if the expenditures are approved under the terms and conditions of the grant award. The miscoding must be reported in the Auditor's Management Report in the expenditure coding comment. The comment must clearly state that the expenditures were consistent with the approved award and the changes were the result of miscoding. District/charter school final grant close-out reports should reflect the corrected coding of expenditures, including reclassifications of the original budgeted figures, if it was determined that the approved budget was based on the miscoding and the reclassification was made by the auditor in the CAFR. Districts/charter schools should submit with the grant closeout report a copy of the auditors' expenditure coding comment to support the propriety of the reclassification in the closeout report. The district/charter school does not need grantor approval for the reclassifications made by the auditor. However, if the auditor determines that any expenditure was not consistent with the approved grant award the cost must be included in the Auditor's Management Report, and if the finding meets the audit finding criteria as defined in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or NJOMB Circular Letter 15-08-OMB, as applicable, it must be included in the Schedule of Findings and Questioned Costs in the Single Audit Section of the CAFR. Such miscoding will thus appear in two places in the Auditor's Management Report.

A recent review of historical charter school data submitted through the Audit Summary (Audsum) electronic reporting system indicates that charter school reporting of expenditures through Audsum is lacking the required detail. Auditors and their charter school clients are reminded of the statutory requirement at *N.J.S.A. 18A:4-14* to report expenditures (Audsum and CAFR) in accordance with the

financial accounting and classifications established by the National Center of Educational Statistics (NCES) and the New Jersey Minimum Chart of Accounts. The reporting must be in conformity with generally accepted accounting principles (GAAP), which includes a double-entry, self-balancing set of accounts and records. N.J.A.C. 6A:23A, Subchapter 16 prescribes further regulation regarding the accounting. Renaissance school projects and school districts are also reminded of the reporting requirements.

Note to Auditors of Charter Schools or Renaissance School Projects: The reporting of audited expenditures must be in the format detailed in the chart of accounts, regardless of the condensed line item budget that is submitted by the schools to the department's charter school or renaissance school project office. <http://www.state.nj.us/education/finance/fp/af/coa/coa.pdf>.

In the absence of detailed expenditure reporting, the department's compliance with federal reporting requirements may be compromised; the school may not be in compliance with certain regulatory requirements such as the percentage of legal fees at N.J.A.C. 6A:23A-22.6; the school may not be provided with an indirect cost rate for use with federal grant awards.

N.J.A.C. 6A:23A-16.2(f)2 requires that the district board of education/ board of trustees adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2015-16 Edition). The Chart of Accounts must be utilized within the charter school GAAP accounting system. All detailed accounts that are applicable to the school must be utilized. This Chart of Accounts (COA) may be found on the website at:

<http://www.state.nj.us/education/finance/fp/af/coa/coa1617.pdf> and was effective July 1, 2015. Annual updates to the Chart of Accounts are included in the annual school district Budget Guidelines, Appendix C- Minimum Chart of Accounts located at:

<http://www.state.nj.us/education/finance/fp/audit/1617/guide/appendixc.pdf>

Specific to charter schools/renaissance school projects, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time enabling charter schools/renaissance school projects to comply with monitoring standards and maintain comparability to public school financial data. For reporting purposes, the *Uniform Chart of Accounts for New Jersey Public Schools*, which is available from the publications office should be utilized. The charter school/renaissance school project should use only the accounts deemed necessary.

The auditor's procedures should include tests of the appropriate classifications of expenditures in accordance with the prescribed budget summary. Expenditure coding errors noted will be reclassified for financial statement presentation in accordance with the guidance provided under Section V-Conducting the School Audit. Auditors are required to include a comment about expenditures coding in the Auditor's Management Report.

N.J.A.C. 6A:23A-16.10 Overexpenditure of Funds (applicable to school districts, charter schools, and renaissance school projects)

Auditors should refer to N.J.A.C. 6A:23A-16.10 for detailed controls that district boards of education/ board of trustees must implement over budgeted revenue and appropriations.

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

N.J.S.A. 18A:22-44.2 provides that districts are to record the one or more June deferred state aid payments of the 2016-17 school budget year (paid in July 2015) as revenue for budget purposes only in the 2016-17 accounting records. Any negative unreserved undesignated fund balance, which is a direct result of a state school aid payment for the current budget year, not paid until the following budget year shall not be considered a violation of any law and does not need corrective action. (See Section III for example of note disclosures).

SECTION I – GENERAL COMPLIANCE
CHAPTER 7

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SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Closing Out for GAAP

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

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

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

June state aid payments (School Districts only)

Pursuant to *N.J.S.A. 18A:22-44.2* districts are to record the one or more deferred June state aid payments of the 2016-17 budget year (received July 2017) as revenue for budget purposes only in the 2016-17 accounting records.

For year-end conversion to the GAAP modified accrual statements, the district will need to make an adjustment equal to the amount of revenue for each state aid category (both general fund and special revenue fund) included in the one or more deferred June state aid payments. The adjustment to GAAP would be to record the prior year last state aid payment (2015-16) and to eliminate the current year (2016-17) June state aid payments that were recorded for budget purposes. This adjustment will eliminate the budgetary only recognition of 2016-17 state aid revenue and the Intergovernmental Receivable – State. The expenditures which have been deducted from the gross revenue when the state calculates the net cash payments are neither reversed nor accrued since these have been paid in full by the state as of each June 30. (See end of Section I-8 for example).

General Procedures for All Funds (Other than Special Revenue)
(Applies to school districts/charter schools/renaissance school projects)

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

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

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

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

<http://www.state.nj.us/education/finance/fp/af/hotline.pdf>

The Fiscal Accountability code (*N.J.A.C. 6A:23A-9.11(b)*) requires the office of the Executive County Superintendent or state monitor, as applicable, to review each school district's and county vocational school district's audited accounts payables and encumbrances that are part of the reserve for encumbrances as of June 30 that are in excess of \$5,000. Encumbrances or accounts payable, which are not valid, must be reclassified to "designated general fund balance in the subsequent school year". Auditors should refer to *N.J.A.C. 6A:23A-9.11(e)* and (g). Except for construction projects and other long-term contracts, encumbrances which have been cancelled on or after July 1 or which have not been liquidated by September 30 of the fiscal year subsequent to the recently audited fiscal year shall be reclassified. (*N.J.A.C. 6A:23A-9.11(e)*). Accounts payable for goods or services that have not been received or services rendered on or before June 30 of the audited fiscal year, will be treated as encumbrances or undesignated general fund balance. (*N.J.A.C. 6A:23A-9.11(f)*, and (g)).

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

Districts/charter schools/renaissance school projects are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues for which collection amounts are known. Districts/charter schools/renaissance school projects may also have established accounts receivable

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

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

For school districts only, when reporting for budgetary purposes only, the June state aid payments of school fiscal year 2016-17 will be included in the revenue of 2016-17, pursuant to *N.J.S.A 18A:22-44.2*. For year-end conversion to the GAAP modified accrual statements, the district will need to make an adjustment for each state aid categories of the general fund and special revenue fund included in the deferred June state aid payments. The adjustment eliminates the Intergovernmental Receivable – State. Districts should have available the final state aid payment schedule as support for the adjustment of the applicable revenue. The expenditures that have been deducted from the gross revenue when the state calculates the net cash payments are not reversed since these have been paid in full as of June 30 by the state. In addition, for the GAAP basis financial statements, districts should recognize the last state aid payment for fiscal year 2015-16, made in July 2016 which was recorded in 2016-17 as revenue for budgetary purposes but not for GAAP statements. This is to enable the districts to be consistent with the state reporting under GASBS 33.

3) Analyze Balance Sheet Account Balances: (applicable to school districts/charter schools/renaissance school projects)

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

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

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

Standard Adjusting Entries

To Establish Accounts Payable:

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

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

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

To Cancel Purchase Orders:

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

To Accrue Revenues:

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

Closing Entries

Closing Budgetary Accounts

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

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

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

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

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

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

	<u>DEBIT</u>	<u>CREDIT</u>
Dr. Unreserved Fund Balance (XX-770)	586,300	
Dr. Revenues (XX-302)	49,911,100	
Cr. Estimated Revenues (XX-301)		49,929,100
Cr. Budgeted Fund Balance (XX-303)		568,300

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

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

Dr. Appropriations (XX-601)	50,497,400	
Cr. Expenditures (XX-602)		49,893,100
Cr. Encumbrances (XX-603)		65,000
Cr. Unreserved Fund Balance (XX-770)		539,300

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

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

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

Other Issues/Entries

Internal Accounting Records (school districts/charter schools/renaissance school projects)

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

Capital Assets and Long Term-Debt (applicable to school districts/charter schools/renaissance school projects)

School districts, charter schools, and renaissance school project should refer to the *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification), Section 1400 (Reporting Capital Assets), Section 1500 (Reporting Liabilities) and Section C60 (Compensated Absences) for guidance on reporting these. The following is a brief overview and is not intended to address the conversion at the end of the year:

- Districtwide/Schoolwide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the district wide *Statement of Net Position* (Exhibit A-1). Depreciation is reported in the *Statement of Activities* (Exhibit A-2). Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year. This includes compensated absences. Districts/charter schools/renaissance school projects and auditors should refer to GASB Codification C60 for guidance on calculating the liability for compensated absences and reporting the amount due within one year separately from the amount due in more than one year in the *Statement of Net Position*.
- Fund Financial Statements (Modified Accrual Basis) – districts/charter schools/renaissance school projects will continue to report capital outlay and bond proceeds in the governmental fund statements. Liabilities for compensated absences are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized as payments come due each period upon the occurrence of relevant events, such as employee resignations and retirements. Districts/charter schools/ renaissance school projects and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

Opening Balances (school districts/charter schools/renaissance school projects)

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

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

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

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

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

Reference Materials

The below listed pages in the *Technical Systems Manual* should be referenced for specific examples of adjusting and closing entries in the various funds. As previously noted, the closing entries for the general fund as shown in the *Technical Systems Manual* on Page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The sample entries on Pages I-8.4 and I-8.5 of this Audit Program reflect the revised entries.

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

Special Revenue Fund (school districts/charter schools/renaissance school projects)

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

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

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

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

Districts/charter schools/renaissance school projects must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this chapter and make the necessary entries as illustrated on Page I-8.4 to cancel any unnecessary orders and to reverse the reserve for encumbrances and record the expenditures and the accounts payable related to the unpaid orders for which the

district/charter school has received goods and services as of June 30. An additional entry will be needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. Remember that under the budgetary basis used in the special revenue fund, an item is chargeable to the grant and considered expenditure when it becomes an obligation.

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

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

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

When analyzing balance sheet accounts in the special revenue fund it should be noted that for budgetary basis there is no fund balance in the special revenue fund. Any excess of cash received over expenditures is either deferred revenue, due to grantor, or an interfund payable. Districts/charter schools and auditors should refer to Section II-20 of this Audit Program for further guidance on the carryover of certain restricted state aids, which should be reported as an interfund payable. Adjustments should have been made to the certified budget to spend the July 1 deferred revenue and the deferred revenue subsequently recognized as revenue during the year. An example of the journal entries necessary to budget and recognize the deferred revenue is provided in Chapter 9 of the *Technical Systems Manual* and should be carefully reviewed.

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

Special Revenue Fund Adjusting Entries

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

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

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

- If carryover is not allowed:

Dr. Revenue (20-302)
 Cr. Intergovernmental Accounts Payable (20-41X)

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

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

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

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

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

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

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

Special Revenue Fund Closing Entries

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

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

Dr. Revenues (20-302)
 Cr. Expenditures (20-602)

(With the appropriate entries being made in the revenue and expenditure subsidiary ledgers.)

Special Revenue Fund - Other Issues/Entries

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

Opening Balances

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

year's certified budget since the orders were charged as expenditures during the current year under the budgetary basis.

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

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

Grant Year

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

All Funds (applicable to school districts/charter schools/renaissance school projects)

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

Deferral of One or More June State School Aid Payments for GAAP Reporting: (does not apply to charter schools/renaissance school projects)

Under GAAP financial reporting, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the June state school aid payments are not considered revenue to the school district if the State has not recorded the corresponding expenditure. For intergovernmental transactions, GASBS 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the state is recording the June state aid payments for 2015-16 in the subsequent fiscal year, school districts cannot recognize these June state aid payments on the GAAP financial statements until the subsequent fiscal year. In addition, since the state recorded the last state aid payment for 2014-15 in 2015-16, school districts should recognize the 2014-15 last state aid payment in the 2015-16 GAAP financial statements.

Existing state and federal regulations may conflict with GAAP reporting. If a conflict exists between GAAP and any legal/contractual requirement, *N.J.A.C. 6A:23A-16.3* and *N.J.A.C. 6A:23A-22* require

every district board of education/board of trustees to develop budgets and maintain an accounting system on the legal/contractual basis, such that sufficient records exist to enable reporting in conformity with GAAP at year end.

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

For school districts only, an example of the reconciliation process for the deferral of the 2015-16 June state aid payment in both the general and special revenue funds is provided here as guidance. (See Section III – Chapter 3 for sample disclosures and reconciliations.) Districts must use the final state aid payment schedule (June 2016) to determine the cash amount of the last two state aid payments prior to withholding. Note that state aid which is not included on the revised payment schedule (e.g., nonpublic school aid, grants) is not included in the last two state aid payments. The cash payment schedule to the school district for state aid may be different from the revenue due to certain adjustments deducted from the receivable for those expenditures that the state pays on behalf of the district, such as tuition to Katzenbach.

Assume that a district is entitled to the following revenues:

Equalization Aid	\$208,065,785
Education Adequacy Aid	37,475,295
Transportation Aid	3,624,557
Special Education Categorical Aid	19,778,459
Adjustment Aid	2,936,604
Security Aid	809,780
Total General Fund	<u>272,690,480</u>
Preschool Education Aid	41,273,358
Total Special Revenue Fund	<u>41,273,358</u>
Total State Aid	\$313,963,838

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

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

Based on the revenue and deductions, cash payments to the district for the year would equal \$308,556,831. The first 18 payments are each \$15,427,842 and the June state aid payments (2) are \$15,427,833 each. The following allocation method should be used to convert the budgetary schedules to the GAAP statements:

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

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

Below is an example of the proration method:

State Aid	Revenue	% of Revenue	Adjustment Applied to Each State Aid
Equalization Aid	208,065,785	76.30	10,196,858
Education Adequacy Aid	37,475,295	13.74	1,836,236
Transportation Aid	3,624,557	1.33	177,743
Special Education Categorical Aid	19,778,459	7.25	968,902
Adjustment Aid	2,936,604	1.08	144,333
Security Aid	809,780	0.30	40,093
Total GF [A]	272,690,480	100 %	13,364,165
Preschool Education Aid	41,273,358	100.00	2,063,668
Total SRF [B]	41,273,358	100 %	2,063,668
Total State Aid	\$313,963,838		15,427,833

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

		Debit	Credit
General Fund			
10-302	Revenue	13,364,165	
10-141	Intergov. A/R-State		13,364,165
	(To adjust to GAAP basis revenue for last state aid payment)		
10-3176	Equalization Aid		10,196,858
10-3175	Education Adequacy Aid		1,836,236
10-3121	Transportation Aid		177,743
10-3132	Special Education Categorical Aid		968,902
10-3178	Adjustment Aid		144,333
10-3177	Security Aid		40,093
	(Optional posting to revenue ledger, if needed)		
Special Revenue Fund			

20-302	Revenue	2,063,668	
20-141	Intergov. A/R-State		2,063,668
	(To adjust to GAAP basis revenue for last state aid payment)		
20-3218	Preschool Education Aid		2,063,668
	(Optional posting to revenue ledger, if needed)		

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

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

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