

**BOARD OF EDUCATION
LEBANON BOROUGH SCHOOL
AUDITORS MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS, FINANCIAL, COMPLIANCE AND PERFORMANCE
YEAR ENDED JUNE 30, 2015**

AUDITORS MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS-FINANCIAL, COMPLIANCE AND PERFORMANCE

	<u>PAGE</u>
Independent Auditors Report	1
Scope of Audit	2
School Purchasing Program:	
Contracts and Agreements Requiring Advertisement for Bids	2-3
Administrative Practices and Procedures:	
Insurance	3-4
Official Bonds	4
Financial Planning, Accounting and Reporting:	
Examination of Claims	4
Other Special Federal and/or State Projects	4
Payroll Account	4
Reserve for Encumbrances, Liability (Current) for Accounts Payable	4
Classification of Expenditures	5
Treasurer's Records	5
Board Secretary's Records	5
TPAF (Social Security) Reimbursement	5
School Food Services:	
Milk Service Fund	5-6
Application for State School Aid	6
Pupil Transportation	6
Schedule of Findings of Noncompliance	6
TPAF Reimbursement	6
Schedule of Audited Enrollments	7-9
Excess Surplus Calculation	10-11
Recommendations	12
Status of Prior Year's Audit Findings and Recommendations	12
Acknowledgment	12

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November 19, 2015

Honorable President and Members
of the Board of Education
Lebanon Borough School
County of Hunterdon, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Board of Education of the Lebanon Borough School District in the County of Hunterdon for the year ended June 30, 2015, and have issued our report thereon dated November 19, 2015.

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended for the information of the Lebanon Borough School Board of Education's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



William M. Colantano, Jr.
Public School Accountant
No. CS 0128

SCOPE OF AUDIT

The audit covered the financial transactions of the Board Secretary/School Business Administrator and Treasurer of School Monies, the activities of the Board of Education, and the records of the various funds under the auspices of the Board of Education.

SCHOOL PURCHASING PROGRAMS

Contracts and Agreements Requiring Advertisement for Bids

NJSA 18A:18A-3 States:

- "A. Any purchase, contract or agreement for the performance of any work or the furnishing or hiring of materials or supplies, the cost or price of which, together with any other sums expended or foreseeably to be expended for the performance of any work or services in connection with the same project or the furnishing of similar materials or supplies during the same fiscal year paid with or out of school funds, does not exceed the total sum of \$7,500 or the amount determined pursuant to subsection B. of this section, in the fiscal year or, in the case of purchases that are not annually recurring, in a period of one year may be made, negotiated and awarded by a contracting agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefore."
- "B. Commencing January 1, 1983 and every two years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount set forth in subsection A. of this section in direct proportion to the rise or fall of the consumer price index for all urban consumers in the New York City and the Philadelphia area as reported by the United States Department of Labor. The Governor shall notify all Local school districts of the adjustment. The adjustment shall become effective on July 1, of the year in which it is reported."

NJSA 18A:18A:-4 States:

- ✧ "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of school funds, not included within the terms of NJSA 18A:18A-3, shall be made and awarded only by the board of education after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or calculated by the Governor pursuant to NJSA 18A:18A-3 except by contract or agreement."

Effective April 17, 2000, NJSA 18A:18A (Public School Contracts Law) was revised by PL 1999 Ch 440. The associated rules were drafted by the Department of Local Government Services of the State of New Jersey, with consultation from the Commissioner of Education of New Jersey.

Effective July 1, 2015 and thereafter, the bid thresholds in accordance with NJSA 18A:18A-3 (as amended) and 18A:39-3 are \$29,000 and \$18,800 respectively.

In accordance with 18A:18A-3a and NJAC 5:34-5 et seq. the Board of Education has appointed a "Qualified Purchasing Agent" which allows the Board of Education to increase the bid threshold and to grant the authorization to negotiate contracts below the bid threshold.

SCHOOL PURCHASING PROGRAMS (Cont'd)

Contracts and Agreements Requiring Advertisement for Bids (cont'd)

The Board of Education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

Our examination of the minutes indicated that contracts were awarded for the following:

Security Project	Telephone Maintenance
HVAC Maintenance	Occupation Therapy
Child Study Team Consultants	Classroom Air Conditioning Project
Flexible Spending Account Administrator	

As the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies the results of such an accumulation could not reasonably be ascertained. Expenditures were reviewed, however, to determine whether any clear cut violations existed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory threshold where there had been no advertising for bids in accordance with the provision of NJSA 18A:18A-4.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per NJSA 18A:18A-5.

The system of records did not provide for an accumulation of purchases for which the school board used contracts entered into by the State Department of Purchase and Property pursuant to Chapter 114, PL 1977, therefore, the extent of such purchases could not reasonably be ascertained. Our examination revealed that the following purchases were made through the use of state contracts:

Technology Supplies

Purchases were also made through cooperative agreements for the following:

Transportation
 Music Teacher
 Insurance Provider
 School Psychologist
 Instructional Supplies
 Network Administrator
 Security Project Materials
 Electricity Generation Services

ADMINISTRATIVE PRACTICES AND PROCEDURES

Insurance

Fire and other insurance coverage evidenced by policies was carried in the amounts as reflected in the Insurance Schedule included in the District's Comprehensive Annual Financial Report.

Adequacy of insurance coverage is the responsibility of the Board of Education.

ADMINISTRATIVE PRACTICES AND PROCEDURES (Cont'd)

Official Bonds (NJSA 18A:17-26 18A:17-32)

Surety bond coverage in force during the period was:

<u>Name of Employee</u>	<u>Position</u>	<u>Amount</u>
Patricia Duell	Board Secretary	\$ 50,000
Joseph Bellino	Interim Secretary/Business Administrator	50,000
Kay Winzenreid	Treasurer of School Monies	130,000

The Treasurer of School Monies was bonded in accordance with provisions of Title 18A:17-32 within minimum limits of the schedule promulgated by the New Jersey State Board of Education.

FINANCIAL PLANNING, ACCOUNTING AND REPORTING

Examination of Claims

An examination of claims paid during the period under review indicated no discrepancies with respect to signatures, certification or supporting documentation.

Special Federal and/or State Projects

Special Federal and State Projects of the District are reflected on schedules K-3 and K-4 included in the Comprehensive Annual Financial Report.

Our examination of the Special Projects, on a test basis, indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits contained within the CAFR represent a true statement of the financial position pertaining to the aforementioned special projects.

Payroll Account

The net salaries of all employees of the Board were deposited in the Payroll Account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the Payroll Agency Account.

All payrolls were approved by the Chief School Administrator and were certified by the President of the Board and the Board Secretary/School Business Administrator.

Salary withholdings were promptly remitted to the proper agencies.

Reserve for Encumbrances, Liability (Current) for Accounts Payable

A review of outstanding issued purchase orders was made as of June 30, for goods not yet received or services not yet rendered and it was determined that no blanket purchase orders were included in the balance of the reserves for encumbrances. Also unpaid purchase orders included in the balance of accounts payable were reviewed for propriety and to determine that goods were received and services were rendered, as of June 30.

FINANCIAL PLANNING, ACCOUNTING AND REPORTING (Cont'd)

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with NJAC 6A:23A-16.2(f) as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with NJAC 6A:23A-8.2. As a result of the procedures performed, a nominal transaction error rate was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Treasurer's Records

The records of the Treasurer were maintained in good order.

Board Secretary's Accounting Records

The records of the Board Secretary were maintained in good order.

Finding: The district appropriated surplus not included in the original budget without obtaining prior NJ Department of Education approval.

Condition: The district settled litigation with a former employee resulting in a substantial expenditure that was not budgeted for.

Effect: Available balances in budgeted appropriations were insufficient to offset the additional expense. The board authorized a transfer of funds totaling \$72,703 from unreserved surplus; however, NJ Department of Education approval was not obtained.

Recommendation: That procedures be implemented ensuring that NJ Department of Education approval is obtained prior to transferring unbudgeted surplus.

TPAF (Social Security) Reimbursement

Our audit procedures included a test of the biweekly reimbursement forms filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

SCHOOL FOOD SERVICE

Milk Service Fund

The financial accounts were reviewed on a test-check basis. No exceptions were noted.

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school milk service fund. Net cash resources did exceed three months average expenditures.

Cash receipts and bank records were reviewed for timely deposits.

SCHOOL FOOD SERVICE (Cont'd)

Milk Service Fund (Cont'd)

Finding: Receipts collected for the milk service fund were not deposited to the district's milk service fund bank account.

Condition: The district used a locked cash box for maintaining daily receipts from milk sales and used the proceeds to purchase milk to dispense to the students.

Effect: Receipts from daily sales were not promptly deposited to the district's milk service fund bank account.

Recommendation: Procedures be implemented ensuring that receipts collected from milk sales are promptly deposited to the district's milk service fund bank account.

Exhibits reflecting the Milk Service Fund are included in the section entitled Enterprise Funds in the CAFR.

APPLICATION FOR STATE SCHOOL AID

Our audit procedures included a test of the information reported in the October 15, 2014 Application for State School Aid (ASSA) Data Listing for on-roll, private schools for the handicapped, and transportation. We also performed a review of the district procedures related to its completion. The information on the data listing was compared to the district work papers with minor exception. The information that was included on the work papers was verified without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

The district maintained work papers on the prescribed state forms or their equivalent.

The district has adequate written procedures for the recording of student enrollment data.

PUPIL TRANSPORTATION

Our audit procedures included a test of on roll status reported in the 2014-2015 District Report of Transported Resident Students (DRTRS). The information that was included on the DRTRS was verified to the DRTRS Eligibility Summary Report without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

Our procedures also included a review of transportation related contracts and purchases. Based on our review, the district complied with proper bidding procedures and award of contracts. No exceptions were noted in our review of transportation related purchases of goods and services.

SCHEDULE OF FINDINGS OF NONCOMPLIANCE

There were no findings of noncompliance as a result of this audit pertaining to federal and state financial assistance.

TPAF Reimbursement to the State for Federal Salary Expenditures

The reimbursement to the State to reimburse for the TPAF/FICA payments made by the State on-behalf of the District for those employees whose salaries are identified as being paid from federal funds was made prior to the 90 days required by NJSA 18A:66-90. Accordingly, the expenditure was made in accordance with State law (within 90 days).

LEBANON BOROUGH SCHOOL DISTRICT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2014

SCHEDULE OF AUDITED ENROLLMENTS

	2015-2016 Application for State School Aid						Sample for Verification						Private Schools for Disabled				
	Reported on ASSA On Roll		Reported on Workpapers On Roll		Errors		Sample Selected from Workpapers		Verified per Registers On Roll		Errors per Registers On Roll		Reported on ASSA as Private Schools	Sample for Verifi- cation	Sample Verified	Sample Errors	
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared					
Half Day Preschool Age 3	3		3					3		3							
Full Day Preschool Age 3																	
Half Day Preschool Age 4	6		6					6		6							
Full Day Preschool Age 4																	
Half Day Kindergarten																	
Full Day Kindergarten	8		8					8		9		(1)					
One	14		14					14		14							
Two	15		15					15		15							
Three	11		11					11		11							
Four	9		9					9		9							
Five	13		13					13		13							
Six	7		7					7		7							
Seven																	
Eight																	
Nine																	
Ten																	
Eleven																	
Twelve																	
Post-Graduate																	
Adult HS (15+CR)																	
Adult HS (1-14CR)																	
Subtotal	86	-	86	-	-	-	-	86	-	87	-	(1)	-	-	-	-	-
Special Education-Elementary	7		7					7		6		1					
Special Education-Middle	2		2					2		2							
Special Education-High School																	
Subtotal	9	-	9	-	-	-	-	9	-	8	-	1	-	-	-	-	-
County Vocational-Regular																	
County Vocational-Full Time Post Sec																	
Totals	95	-	95	-	-	-	-	95	-	95	-	-	-	-	-	-	-
Percentage Error					0.00%	0.00%						0.00%	0.00%				0.00%

LEBANON BOROUGH SCHOOL DISTRICT
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 ENROLLMENT AS OF OCTOBER 15, 2014
 (Continued)

SCHEDULE OF AUDITED ENROLLMENTS

	Resident Low Income			Sample for Verification			Resident LEP Low Income			Sample for Verification		
	Reported on ASSA as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application & Register	Sample Errors	Reported on ASSA as LEP Low Income	Reported on Workpapers as LEP Low Income	Errors	Sample Selected from Workpapers	Verified to Test Score & Register	Sample Errors
Half Day Preschool Age 3												
Full Day Preschool Age 3												
Half Day Preschool Age 4												
Full Day Preschool Age 4												
Half Day Kindergarten												
Full Day Kindergarten	4	4		4	4							
One	1	1		1	1							
Two	2	2		2	2							
Three	2	2		2	2							
Four	1	1		1	1							
Five												
Six	1	1		1	1							
Seven												
Eight							1	1		1	1	
Nine												
Ten												
Eleven												
Twelve												
Post-Graduate												
Adult HS (15+CR)												
Adult HS (1-14CR)												
Subtotal	<u>11</u>	<u>11</u>	<u>-</u>	<u>11</u>	<u>11</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>
Special Education-Elementary												
Special Education-Middle												
Special Education-High School												
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
County Vocational-Regular												
County Vocational-F/T Post Sec.												
Totals	<u>11</u>	<u>11</u>	<u>-</u>	<u>11</u>	<u>11</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>
Percentage			<u>0.00%</u>			<u>0.00%</u>			<u>0.00%</u>			<u>0.00%</u>

LEBANON BOROUGH SCHOOL DISTRICT
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 ENROLLMENT AS OF OCTOBER 15, 2014
 (Continued)

SCHEDULE OF AUDITED ENROLLMENTS

	Resident LEP Not Low Income			Sample for Verification		
	Reported on ASSA as Not Low Income	Reported on Workpapers as Not Low Income	Errors	Sample Selected from Workpapers	Verified to Application & Register	Sample Errors
Grade Two	1	1		1	1	
	1	1	-	1	1	-
			0.00%			0.00%
	Transportation					
	Reported on DRTRS by DOE/County	Reported on DRTRS by District	Errors	Tested	Verified	Sample Errors
Public	26	26		26	26	
Transported-Non-Public School Students	16	16		16	16	
AIL Non-Public School Students	3	3		3	3	
Public School-With Special Needs	1	1		1	1	
Out of District Public School-Without Special Needs	4	4		4	4	
	50	50	-	50	50	-
Percentage			0.00%			0.00%

EXCESS SURPLUS CALCULATION

SECTION 1

2% Calculation of Excess Surplus

2014-2015 Total General Fund Expenditures Per the CAFR, Exhibit C-1	\$ 2,689,578	(B)	
Increased by:			
Transfer from Capital Outlay to Capital Projects Fund	-	(B1a)	
Transfer from Capital Reserve to Capital Projects Fund	249,753	(B1b)	
Transfer from General Fund to SRF for PreK-Regular	-	(B1c)	
Transfer from General Fund to SRF for PreK-Inclusion	-	(B1d)	
Transfer to Unemployment Compensation Fund	-	(B1e)	
Decreased by:			
On-Behalf TPAF Pension & Social Security	182,193	(B2a)	
Assets Acquired Under Capital Leases	-	(B2b)	
Adjusted 2014-2015 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 2,757,138</u>	(B3)	
2% of Adjusted 2014-2015 General Fund Expenditures [(B3) Times .02]	\$ 55,143	(B4)	
Enter Greater of (B4) or \$250,000	250,000	(B5)	
Increased by: Allowable Adjustment	<u>1,733</u>	(K)	
Maximum Unassigned Fund Balance [(B5)+(K)]			<u>\$ 251,733 (M)</u>

SECTION 2

Total General Fund-Fund Balances @ 06/30/2015 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 586,667	(C)	
Decreased by:			
Year-End Encumbrances	3,490	(C1)	
Legally Restricted-Designated for Subsequent Year's Expenditures	-	(C2)	
Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	17,053	(C3)	
Other Restricted Fund Balances	317,185	(C4)	
Assigned Fund Balance-Designated for Subsequent Year's Expenditures	<u>-</u>	(C5)	
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]			<u>\$ 248,939 (U)</u>

EXCESS SURPLUS CALCULATION
(Continued)

SECTION 3

Restricted Fund Balance-Excess Surplus [(U)-(M)] if Negative Enter -0-	\$	-	(E)
<u>Recapitulation of Excess Surplus as of June 30, 2015</u>			
Restricted Excess Surplus-Designated for Subsequent Year's Expenditures	\$	17,053	(C3)
Restricted Excess Surplus		-	(E)
Total Excess Surplus [(C3) + (E)]	\$	17,053	(D)

Detail of Allowable Adjustments

Impact Aid	\$	-	(H)
Sale and Lease Back		-	(I)
Extraordinary Aid		-	(J1)
Additional Nonpublic Transportation Aid		1,733	(J2)
Other Allowable Adjustments		-	(J3)
Total Adjustments	\$	1,733	(K)

Detail of Other Restricted Fund Balance

Approved Unspent Separate Proposal	\$	-	
Unspent Capital Outlay SGLA		-	
Sale/Lease-Back Reserve		-	
Capital Reserve		115,152	
Maintenance Reserve		-	
Emergency Reserve		202,033	
Other State/Government Mandated Reserve		-	
(Other Restricted Fund Balance Not Noted Above)		-	
Total Other Restricted Fund Balance	\$	317,185	(C4)



William M. Colantano CPA, Public School Accountant

RECOMMENDATIONS

2015-01 Procedures be implemented ensuring that NJ Department of Education approval is obtained prior to transferring unbudgeted surplus.

2012-02 Procedures be implemented ensuring that receipts collected from milk sales are promptly deposited to the district's milk service fund bank account.

STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

There were no prior year recommendations.

The foregoing conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the financial statements, and this report of such conditions does not modify our report dated November 19, 2015

Should any questions arise as to our comments, please do not hesitate to contact us.

We wish to express our appreciation for the assistance and courtesies rendered by the school officials and employees during the course of the examination.



William M. Colantano, Jr.
Public School Accountant
No. CS 0128