

**RAHWAY SCHOOL DISTRICT
AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS -
FINANCIAL, COMPLIANCE AND PERFORMANCE
JUNE 30, 2015**

**RAHWAY SCHOOL DISTRICT
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- FINANCIAL, COMPLIANCE AND PERFORMANCE**

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LERCH, VINCI & HIGGINS, LLP

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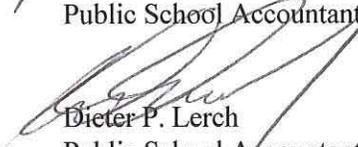
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Honorable President and Members
of the Board of Trustees
Rahway School District
Rahway, New Jersey

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 Rahway School District as of and for the fiscal year ended June 30, 2015, and have issued our report thereon dated December 16, 2015.

As part of our audit, we performed procedures required by the Office of School Finance, Department of Education, State of New Jersey 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 and use of management, the Board of Trustees, others within the District and the New Jersey State Department of Education. However, this report is a matter of public record and its distribution is not limited.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants

Dieter P. Lerch
Public School Accountant
PSA Number CS00756

Fair Lawn, New Jersey
December 16, 2015

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Scope of Audit

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

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on the Insurance Schedule (Exhibit J-20) contained in the District's Comprehensive Annual Financial Report (the "CAFR").

Official Bonds

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Albert DiGiorgio	School Business Administrator	\$ 50,000

There is a Public Employees' Faithful Performance Blanket Position Bond with Selective Insurance covering all other employees with coverage of \$250,000.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid during the period under review did not indicate any discrepancies with respect to supporting documentation.

Payroll Account

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

All payrolls tested were certified by the President of the Board, the Board Secretary and the Chief School Administrator.

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholding due to the General Fund.

Finding – Our audit indicated that employee health benefit contributions were not calculated in accordance with Chapter 78, P.L. 2011, upon the transition of the District health benefit coverage.

Recommendation – Employee health benefit contributions be calculated in accordance with Chapter 78, P.L. 2011.

Reserve for Encumbrances and 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. 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.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Financial Planning, Accounting and Reporting (Continued)

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 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 N.J.A.C. 6A:23A-8.3. No errors were noted.

Board Secretary's Records

Acknowledgment of the Board's receipt of the monthly financial reports was included in the minutes.

Our audit indicated that the original budget, as reflected in the District's financial reporting system, was not in agreement with the approved district budget; however, adjustments were made through the transfer column. Hence, no recommendation is warranted.

Elementary and Secondary Education Act (E.S.E.A.)/Improving America's Schools Act (IASA) as Reauthorized by the No Child Left Behind Act of 2001

The E.S.E.A./NCLB financial exhibits are contained within the Special Revenue section of the CAFR. This section of the CAFR documents the financial position pertaining to projects under Title I, Title II, Title III, Title IV and V of the Elementary and Secondary Education Act, as amended.

Other Special Federal and/or State Projects

The district's Special Projects were approved as listed on Exhibit K-3 and Exhibit K-4 located in the CAFR.

Our audit indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects.

T.P.A.F. Reimbursements

Our audit procedures included a test of the semi-monthly 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.

T.P.A.F. Reimbursement to the State for Federal Salary Expenditures

The amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district for those employees whose salaries are identified as being paid from federal funds was made prior to the end of the 60 day grant liquidation period required by the Office of grants Management. The expenditure was reviewed subsequent to the reimbursement and no exceptions were noted.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

Effective July 1, 2010 and thereafter the bid thresholds in accordance with *N.J.S.A. 18A:18A-2 and 18A:18A-3(a)* are \$36,000 (with a qualified purchasing agent) and \$26,000 (without a qualified purchasing agent), respectively. The law regulating bidding for public school student transportation contracts under NJSA 18:39-3 is currently \$18,300. The Board has approved a resolution designating the Business Administrator as a Qualified Purchasing Agent.

The district 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 Board attorney's opinion should be sought before a commitment is made.

Inasmuch 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. Disbursements 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 goods or services, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 18A:18A-4, as amended.

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

Finding – Our audit indicated that payments were made for emergency services without the required department head certification, resolution ratifying the emergency contract or notification to the Executive County Superintendent of the emergency contract award.

Recommendation – Internal controls over purchasing be reviewed and enhanced to ensure that contracts for emergency services be awarded in accordance with the Public School Contracts Law.

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 N.J.S.A. 18A:18A-10, therefore, the extent of such purchases could not reasonably be ascertained. Our examination did reveal, however, that purchases were made through the use of State contracts.

School Food Service

The financial transactions and statistical records of the school food service fund were reviewed. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis.

The number of meals claimed for reimbursement was verified against sales and meal count records with immaterial exceptions noted. As part of the claims review process the edit check worksheet was completed. Reimbursement vouchers were timely filed.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

School Food Service (Continued)

Applications for free and reduced priced meals were reviewed for completeness and accuracy. The number of free and reduced priced meals claimed as served did not exceed the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced priced meals policy is uniformly administered throughout the School System. The required verification procedures for free applications was completed and available for review

Expenditures should be separately recorded as food, labor and other costs. Inventory records on food supply items were currently maintained and properly applied in determining the cost of food and supplies used.

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 food service. Net cash resources did not exceed three months average expenditures.

Cash receipts and bank records were reviewed for timely deposit.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds (Exhibits B4-B6).

The District contracted with Pomptonian, Inc. to manage the operations of the school food service operations and deposited funds in accordance with applicable State statutes. Provisions of the FSMC contract includes an operating results provision which guarantees that the food service program will generate a minimum profit of \$75,000. The operating results provision has been met.

Student Activity Funds/Athletic Association/Scholarships

The Board has a policy, which clearly established the regulation of student activity funds.

Finding – Our audit of the district’s student activity and athletic accounts indicated the following:

- Pre –numbered receipts are not always utilized for collections.
- Certified bank deposit slips were not always retained.
- Disbursements from the middle school and athletic accounts were not always supported by vendor invoices.
- Check images for disbursements were not always able to be provided for audit.
- Certain disbursements do not appear to student related activities.
- The athletic account was not reconciled subsequent to November 2014.

Recommendation – Internal controls over the student activity and athletic accounts be reviewed and enhanced.

Finding – Our audit indicated that checks disbursed from Scholarship accounts contained only one (1) authorization signature.

Recommendation – Checks disbursed from the scholarship accounts include two authorized signatures.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Application for State School Aid

Our audit procedures included a test of information reported in the October 15, 2014 Application for State School Aid (ASSA) for on-roll, private schools for the handicapped, related services, bilingual and low income. We also performed a review of the District procedures related to its completion. The information on the A.S.S.A. was compared to the district workpapers with immaterial exceptions noted. The information on the workpapers was verified with immaterial exceptions. The results are presented in the Schedule of Audited Enrollments.

The district maintained workpapers on the prescribed State forms or their equivalent.

The district written procedures appear to be adequate for the recording of student enrollment data, except as noted below.

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 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.

Facilities and Capital Assets

Our procedures included a review of the School Development Authority grant agreements for consistency with recording SDA revenue, transfer of local funds from the General Fund or from Capital Reserve and awarding of contracts for eligible facilities construction.

Finding – Our audit indicated that SDA grant receivables remain uncollected for capital improvement projects which appear to be substantially complete.

Recommendation – Continued efforts be made to collect outstanding School Development Authority grants receivable for completed projects.

Suggestion to Management

The surety bond of the School Business Administrator/Board Secretary be increased.

**RAHWAY SCHOOL DISTRICT
FOOD SERVICE FUND
NUMBER OF MEALS SERVED AND (OVER)/UNDERCLAIM
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Not Applicable

**RAHWAY SCHOOL DISTRICT
FOOD SERVICE FUND
NET CASH RESOURCES SCHEDULE
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Not Applicable

**RAHWAY BOARD OF EDUCATION
APPLICATION FOR STATE SCHOOL AID
SCHEDULE OF AUDITED ENROLLMENTS
OCTOBER 15, 2014**

	2015-2016 Application for State School Aid						Sample for Verification						Private Schools for Disabled			
	Reported on A.S.S.A. On Roll		Reported on Workpapers On Roll		Errors		Sample Selected from Workpapers		Verified per Register On Roll		Errors per Registers On Roll		Reported on A.S.S.A. 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 - 3 years					-	-										
Half Day Preschool - 4 years	138		137		(1)	-	29		29							
Full Day Preschool - 3 years					-	-										
Full Day Preschool - 4 years					-	-										
Half Day Kindergarten					-	-										
Full Day Kindergarten	254		254		-	-	94		95		1	-				
One	285		285		-	-	49		50		1	-				
Two	275		275		-	-	73		73		-	-				
Three	256		256		-	-	54		54		-	-				
Four	247		247		-	-	72		72		-	-				
Five	212		212		-	-	32		32		-	-				
Six	240		240		-	-	69		69		-	-				
Seven	228		228		-	-	228		228		-	-				
Eight	213		213		-	-	213		213		-	-				
Nine	250		250		-	-	250		251		1	-				
Ten	224	6	224	6	-	-	224		224		-	-				
Eleven	173	25	173	25	-	-	173		173		-	-				
Twelve	171	18	171	18	-	-	171		171		-	-				
Subtotal	3,166	49	3,165	49	(1)	-	1,731	-	1,734	-	3	-	-	-	-	-
Spec Ed - Elementary	226		225		(1)	-	52		52		-	-	21.0	16.0	16.0	-
Spec Ed- Middle School	144		144		-	-	101		101		-	-	12.0	9.0	9.0	-
Spec Ed - High School	172	24	171	25	(1)	1	171		177		6	-	43.0	33.0	30.0	(3.0)
Subtotal	542	24	540	25	(2)	1	324	-	330	-	6	-	76.0	58.0	55.0	(3.0)
Totals	3,708	73	3,705	74	(3)	1	2,055	-	2,064	-	9	-	76.0	58.0	55.0	(3.0)
Percentage Error					<u>-0.08%</u>	<u>0.03%</u>					<u>0.44%</u>	<u>0.00%</u>				<u>-5.17%</u>

RAHWAY BOARD OF EDUCATION
APPLICATION FOR STATE SCHOOL AID
SCHEDULE OF AUDITED ENROLLMENTS
OCTOBER 15, 2014

	Low Income			Sample for Verification			LEP Low Income			Sample for Verification		
	Reported on	Reported on	Errors	Sample	Verified to	Sample	Reported on	Reported on	Errors	Sample	Verified to	Sample
	A.S.S.A as	Workpapers as					A.S.S.A as	Workpapers as				
Low	Low	Income	Selected from	Application	Errors	Low	Low	Income	Selected from	Application	Errors	
Half Day Pre-School (3 Yrs)	-	-	-	-	-	-	-	-	-	-	-	-
Half Day Pre-School (4 Yrs)	-	-	-	-	-	-	-	-	-	-	-	-
Full Day Preschool - 3 years	-	-	-	-	-	-	-	-	-	-	-	-
Full Day Preschool - 4 years	-	-	-	-	-	-	-	-	-	-	-	-
Half Day Kindergarten	-	-	-	-	-	-	-	-	-	-	-	-
Full Day Kindergarten	144.0	144.0	-	5.0	5.0	-	38.0	38.0	-	6.0	6.0	-
One	167.0	167.0	-	5.0	5.0	-	51.0	51.0	-	10.0	10.0	-
Two	144.0	144.0	-	5.0	5.0	-	36.0	36.0	-	5.0	5.0	-
Three	150.0	150.0	-	6.0	6.0	-	37.0	37.0	-	5	5.0	-
Four	159.0	159.0	-	4.0	4.0	-	16.0	16.0	-	4	4.0	-
Five	126.0	126.0	-	5.0	5.0	-	5.0	5.0	-	1	1.0	-
Six	168.0	168.0	-	4.0	4.0	-	12.0	12.0	-	3	3.0	-
Seven	137.0	137.0	-	4.0	4.0	-	7.0	7.0	-	2	2.0	-
Eight	120.0	120.0	-	4.0	4.0	-	8.0	8.0	-	2	2.0	-
Nine	140.0	140.0	-	5.0	5.0	-	4.0	4.0	-	1	1.0	-
Ten	122.0	122.0	-	5.0	5.0	-	5.0	5.0	-	1	1.0	-
Eleven	85.0	85.0	-	4.0	4.0	-	1.0	1.0	-	1	1.0	-
Twelve	84.0	84.0	-	3.0	3.0	-	3.0	3.0	-	1	1.0	-
Subtotal	1,746.0	1,746.0	-	59.0	59.0	-	223.0	223.0	-	42.0	42.0	-
Spec Ed - Elementary	137.0	137.0	-	5.0	5.0	-	9.0	9.0	-	4.0	4.0	-
Spec Ed- Middle School	106.0	106.0	-	4.0	4.0	-	1.0	1.0	-	-	-	-
Spec Ed - High School	107.0	107.0	-	2.0	2.0	-	-	-	-	-	-	-
Subtotal	350.0	350.0	-	11.0	11.0	-	10.0	10.0	-	4.0	4.0	-
Totals	2,096.0	2,096.0	-	70.0	70.0	-	233.0	233.0	-	46.0	46.0	-
Percentage Error			<u>0.00%</u>		<u>0.00%</u>				<u>0.00%</u>		<u>0.00%</u>	

	Transportation					
	Reported on	Reported on	Errors	Tested	Verified	Errors
	DRTRS by	DRTRS by				
DOE	District					
Regular- Public Schools	183.0	183	-	20.0	20.0	-
Regular - Sped.	17.0	17	-	2.0	2.0	-
Transported- Non- Public	150.0	150	-	18.0	18.0	-
Special Needs- Public	223.0	223.0	-	24.0	24.0	-
Totals	573.0	573.0	-	64.0	64.0	-
			<u>0.00%</u>	10	<u>0.00%</u>	

**RAHWAY BOARD OF EDUCATION
APPLICATION FOR STATE SCHOOL AID
SCHEDULE OF AUDITED ENROLLMENTS
OCTOBER 15, 2014**

	Resident LEP Not Low Income			Sample for Verification		
	Reported on A.S.S.A as Not Low Income	Reported on Workpapers as Not Low Income	Errors	Sample Selected from Workpapers	Verified to Register	Sample Errors
Half Day Pre-School (3 Yrs)			-			-
Half Day Pre-School (4 Yrs)			-			-
Full Day Pre-School (3 Yrs)			-			-
Full Day Pre-School (4 Yrs)	-	-	-			-
Half Day Kindergarten			-			-
Full Day Kindergarten	9.0	9.0	-	2.0	2.0	-
One	12.0	12.0	-	2.0	2.0	-
Two	11.0	11.0	-	2.0	2.0	-
Three	3.0	3.0	-	1.0	1.0	-
Four	2.0	2.0	-	1.0	1.0	-
Five	1.0	1.0	-	1.0	1.0	-
Six	2.0	2.0	-	1.0	1.0	-
Seven	2.0	2.0	-	1.0	1.0	-
Eight	1.0	1.0	-	-	-	-
Nine	2.0	2.0	-	1.0	1.0	-
Ten	2.0	2.0	-	-	-	-
Eleven	2.0	2.0	-	-	-	-
Twelve			-			-
Subtotal	49.0	49.0	-	12.0	12.0	-
Spec Ed - Elementary	1.0	1.0	-			-
Spec Ed- Middle School			-			-
Spec Ed - High School	1.0	1.0	-			-
Subtotal	2.0	2.0	-	-	-	-
Totals	51.0	51.0	-	12.0	12.0	-
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

**RAHWAY SCHOOL DISTRICT
CALCULATION OF EXCESS SURPLUS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION 1A - Two Percent (2%) - Calculation of Excess Surplus

2014-15 Total General Fund Expenditures per the CAFR (Budgetary Basis)	\$ 67,317,455
Increased by:	
Capital Reserve Transfer to Capital Projects	292,238
Capital Outlay Transfer to Capital Projects	170,000
Decreased by:	
Acquisitions Under Capital Lease	(898,673)
On-Behalf TPAF Pension & Social Security	<u>(6,019,928)</u>
Adjusted 2014-15 General Fund Expenditures	<u>\$ 60,861,092</u>
2% of Adjusted 2014-15 General Fund Expenditures	\$ 1,217,222
Enter Greater of \$250,000 or 2% of Adjusted Expenditures	1,217,222
Increased by:	
Allowable Adjustment*	<u>127,772</u>
Maximum Unassigned Fund Balance	<u>\$ 1,344,994</u>

SECTION 2

Total General Fund - Fund Balance at June 30, 2015	\$ 6,172,944
Decreased by:	
Year End Encumbrances	(51,588)
Capital Reserve /Maintenance Reserve	(786,946)
Excess Surplus - Designated for Subsequent Year's Expenditures	(1,000,214)
Assigned - SEMI/ARRA	(80,771)
Assigned - Designated for Subsequent Year's Expenditures	<u>(1,429,060)</u>
Total Unassigned Fund Balance	<u>\$ 2,824,365</u>

SECTION 3

Restricted Fund Balance - Excess Surplus	<u>\$ 1,479,371</u>
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Recapitulation of Excess Surplus as of June 30, 2015

Excess Surplus, Designated for Subsequent Year's Expenditures	\$ 1,000,214
Excess Surplus	<u>1,479,371</u>
Total	<u>\$ 2,479,585</u>

Detail of Allowable Adjustment

Extraordinary Aid	\$ 100,712
Additional Nonpublic School Transportaton Aid	<u>27,060</u>
Total Adjustments	<u>\$ 127,772</u>

**RAHWAY SCHOOL DISTRICT
RECOMMENDATIONS**

I. Administrative Practices and Procedures

There are none.

II. Financial Planning, Accounting and Reporting

It is recommended that employee health benefit contributions be calculated in accordance with Chapter 78, P.L. 2011.

III. School Purchasing Program

It is recommended that internal controls over purchasing be reviewed and enhanced to ensure that contracts for emergency services be awarded in accordance with the Public School Contracts Law.

IV. School Food Service

There are none.

V. Student Body Activities/Athletics/Scholarships

It is recommended that:

1. Internal controls over the student activity and athletic accounts be reviewed and enhanced.
2. Checks disbursed from the scholarship accounts include two authorized signatures.

VI. Application for State School Aid

There are none.

VII. Pupil Transportation

There are none.

**RAHWAY SCHOOL DISTRICT
RECOMMENDATIONS**

VIII. Facilities and Capital Assets

- * It is recommended that continued efforts be made to collect outstanding School Development Authority grants receivable for completed projects.

IX. Miscellaneous

There are none.

Follow-Up on Prior Year Findings

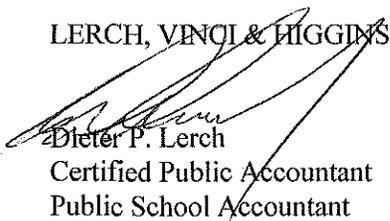
A review was performed on prior year's recommendations and corrective action was taken on all other than those denoted with an asterisk (*) above.

ACKNOWLEDGEMENT

We received the complete cooperation of all the officials of the school district and we greatly appreciate the courtesies extended to us.

Respectfully submitted,

LERCH, VINCI & HIGGINS, LLP



Dieter P. Lerch
Certified Public Accountant
Public School Accountant