

**INDEPENDENT AUDITORS' MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS**

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

JUNE 30, 2015

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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INDEPENDENT AUDITORS' REPORT

Honorable President and
Members of Board of Trustees
The Paulo Freire Charter School
County of Essex, 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 Trustees of the Paulo Freire Charter School (the "Charter School") in the County of Essex, State of New Jersey for the year ended June 30, 2015, and have issued our report thereon dated December 17, 2015.

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


Leonora Galleros, CPA
Licensed Public School Accountant
No. No. 20CS002239400

December 17, 2015
Freehold, New Jersey

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the Treasurer of School Moneys, the activities of the Board of Trustees of the Paulo Freire Charter School (the "Charter School"), and the records of the various funds under the auspices of the Board of Trustees.

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the Charter School's CAFR.

Official Bonds (N.J.S.A. 18A:17-26, 18A:17-32)

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Gail Long	School Business Administrator	\$ 50,000
James Bond	Treasurer	\$ 155,000

Tuition Charges

A review of the financial statements indicated that the Charter School charged no tuition for any student attending the Charter School.

Financial Planning, Accounting, and Reporting

Examination of Claims

An examination of claims paid during the period under review we noted that claims were approved by designated individuals, certified and supporting documents were maintained. However, we noted the following exceptions:

Finding 2015-001*

In our review of cash disbursements and various transactions comprising certain expenditure amounts, we noted the following:

- a. Several purchase orders have the same date as the invoices/receipts or check dates.
- b. Per Diem employee advances for travel were recorded as expenses on the date the advances were issued rather than the date of liquidation of advances.
- c. Sampled reimbursement for expenses and/or liquidation of advances of Executive Officers should have sign-offs by a board member,
- d. There was an employee stipend disbursed for \$9,000 in July 2014 but prior board approval could not be ascertained from the board minutes and/or resolutions on file.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Financial Planning, Accounting, and Reporting - Continued

Finding 2015-001 – Continued

Recommendation

We recommend review of purchasing, reimbursements, and travel policies and procedures for adherence.

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 designee of the Charter School and were certified by the President of the Board and the Chief Executive Officer. In addition, salary withholdings were remitted to the proper agencies.

Reserve for Encumbrances and Accounts Payable

A review of outstanding purchase orders was made as of June 30, 2015, for proper classification of purchase orders as Reserved for Encumbrances or Accounts Payable. No exception was noted in this area.

Travel Policy

A travel policy was adopted in 2012 as required by *N.J.A.C. 6A:23A A-6.13* and *N.J.S.A. 18A:11-12*.

Finding 2015-002

In our review of supporting documents related to travels and conferences, we noted five out-of-town travels for conferences with costs exceeding \$5,000 per travel that were board approved, but prior approval from the Executive County Superintendent was not obtained as required under *N.J.A.C. 6A:23A-5.9*. Also, we noted an in-state travel expense approved with provision for lodging.

Recommendation

Where a travel event has a total cost that exceeds \$5,000, regardless of the number of attendees, or where more than five individuals from the Charter School are to attend a travel event out-of-State, the Charter School should obtain a prior written approval of the Executive County Superintendent at least 10 working days in advance of a travel event.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

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:23-2.2(g) and line item details as described in the Budget Summary Key as part of our test of transactions of judgmentally selected expenditure items.

We also reviewed coding of all expenditures included in our Compliance and Single Audit testing procedures. In addition to the selected expenditures items, we specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23-8.2. As a result of the procedures performed, a minimal transaction error rate of 0.017% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classifications.

Board Secretary's Records

We reviewed the Board Secretary's financial and accounting records maintained by the Business Office and noted that monthly reports are provided to the Board for review and approval. We did note exceptions as follows:

Finding 2015-003

In our review of the Charter School's instructional expense ratio to the total expenditures, we noted that it is below the 60% minimum threshold.

Recommendation

We recommend that the Charter School minimize its support and administrative expenses to improve its instructional expense ratio to total expenditures.

Finding 2015-004*

Interfund receivables and payables are not periodically reconciled.

Recommendation

We recommend that reconciliation of interfund and withholding accounts should be completed periodically and reconciled at year-end.

Treasurer's Records

Monthly reports and reconciliation of accounts were prepared and were presented to the Board. The following exception was noted.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Financial Planning, Accounting, and Reporting - Continued

Finding No. 2015-005*

The Treasurer did not render a report in a timely manner during fiscal year 2014-2015. Although monthly bank reconciliations were performed by the school business administrator, the review by the Treasurer would enhance the reconciliation process.

Recommendation

Each month, the Treasurer should determine cash balances by performing cash reconciliations for the Charter School's bank accounts (N.J.S.A. 18A:17-9).

Elementary and Secondary Education Act (ESEA)/ Improving America's Schools Act (IASA) as reauthorized by the No Child Left Behind Act of 2001

The ESEA/NCLB financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the projects under Titles I and IV of the Elementary and Secondary Education Act as amended and reauthorized.

Other Special Federal and/or State Projects

The Charter School's special projects were approved as listed on Schedules A and B in the CAFR. Our audit of the federal and state funds 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 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.

Teachers' Pension Annuity Fund (TPAF) Reimbursement

Our audit procedures included a test of the electronic reimbursements filed with the Department of Education for Charter School employees who are members of the Teacher's Pension Annuity Fund. We noted no exceptions.

TPAF Reimbursements to the State for Federal Salary Expenditures

The Charter School had reimbursed the State for the amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district (or charter school or renaissance school project) to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district (or charter school or renaissance school project) for those employees whose salaries are identified as being paid from federal funds.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-3 (a) sets forth the bid threshold and requires award by board resolution. The statute was amended in 1999 to provide for an even higher threshold when there is a "Qualified Purchasing Agent" in the 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 was raised to \$26,000, effective July 1, 2010. For charter schools with a qualified purchasing agent, the bid threshold was raised to \$36,000.

"When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$26,000 the contract may be awarded by a purchasing agent when so authorized by resolution of the board without public advertising for bids and bidding therefore, except that the board may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

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. paragraph (3) of that subsection concerning work by employees of the board, 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 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."

Based on the results of our tests, we did note any individual payments, contracts, or agreements made for the performance of any work or goods or services in excess of statutory thresholds where there had been no advertising for bids in accordance with the provision 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 18:18A-5.

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 PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

School Food Service – Continued

Cash receipts and bank records were reviewed for timely deposit.

The Charter School utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1.

Provisions of the FSMC contract/addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will break even. The operating results provision has been met.

Expenditures should be separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified.

The number of meals claimed for reimbursement was compared to sales and meal count records. As part of the claims review process that Edit Check Worksheet was completed. Reimbursement claims were submitted/certified in a timely manner. Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section G of the CAFR.

We did note that the School Food Service has continued to incur operating losses. As of June 30, 2015, the accumulated deficit is at \$103,674. Increasing the appropriation in the general fund for a budgetary transfer out to the Food Service Fund should be considered during fiscal year 2016 if other revenue sources will not increase.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

School Food Service – Continued

Net cash resources did not exceed three months average, as shown below:

**NET CASH RESOURCE SCHEDULE
Proprietary Funds - Food Service
FYE 2015**

		Food Service B - 4/5	
<u>Net Cash Resources:</u>			
CAFR	*	Current Assets	
B-4		Cash & Cash Equiv.	\$ 5,089
B-4		Accounts Receivable	8,159
CAFR		Current Liabilities	
B-4		Less Due to Other Funds	<u>(114,422)</u>
		Net Cash Resources	<u>\$ (101,174)</u> (A)
<u>Net Adj. Total Operating Expense:</u>			
B-5		Tot. Operating Exp.	<u>\$ -</u>
		Adj. Tot. Oper. Exp.	<u>\$ -</u> (B)
<u>Average Monthly Operating Expense:</u>			
		B / 10	<u>\$ -</u> (C)
<u>Three times monthly Average:</u>			
		3 X C	<u>\$ -</u> (D)

TOTAL IN BOX A	\$ (101,174)
LESS TOTAL IN BOX D	<u>-</u>
NET	<u>\$ (101,174)</u>
From above:	
D is greater than A, cash did not exceed 3 X average monthly operating expenses.	

Applications for free and reduce meals were reviewed for completeness and accuracy. The number of free and reduce price meals claimed as served was compared to the number of valid applications and/or to the list of directly certified students on file, times the number of operating days, on a school-by-school basis. The free and reduced price meal and free milk policy was reviewed for uniform administration throughout the school system. Sites approved to participate in Provisions I and II were examined for compliance with all counting and claiming requirements. The required verification procedures for free and reduce price applications were completed and available for review. We did note exceptions as described below.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

School Food Service – Continued

Finding 2015-006

In our review of records and reports related to the Food Service Program, we noted that entries in the Charter School Enrollment (CHE) System of the New Jersey Department of Education did not agree to information on verified applications and supporting documents as follows:

- a. There were nine (9) students classified under “denied” category but should have been under “free” category based on the completed application and income information on file
- b. One (1) student was classified under “free” category but should have been under “reduced” category based on the completed application and income information on file
- c. There was three (3) students classified under “denied” category but should have been under “reduced category based on the completed application and income information on file.
- d. One (1) student was classified under “reduced” category but should have been under “denied” category based on the completed application and income information on file

Recommendation

We recommend that entries in the CHE system should be reviewed against information on verified lunch applications by designated Charter School personnel to ensure proper reporting and accurate claims of meals served under the three categories: free, reduced, or paid meals. All completed applications should be maintained and be made available for review.

Enrollment Count and Submission to the Department

Our audit procedures included tests of information reported on October 15th and the last day of the school year for enrolled, special education, bilingual and low income students. We also performed a review of the Charter School’s procedures related to its completion.

Finding 2015-007*

In our review of enrollment information as reported in State’s system and as per school records, we noted the following:

- a. There were 7 students with incorrect names and/or birthdates in CHE.
- b. One student was incorrectly classified as Grade 10 in CHE. However, attendance is in 9th grade.
- c. There were 16 students with missing birth certificate and proof of address.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Enrollment Count and Submission to the Department

Recommendation

We recommend that the Charter School reviews the CHE entries and agree to student information on file. Reconciliation and review procedures of information should also be conducted on a periodic basis.

Student Body Activities

We reviewed the student activities and the related records. We noted that a separate bank account was established to account for student activities. No exceptions were noted.

Facilities and Capital Assets

The Charter School has inventory records of assets.

Miscellaneous

Finding 2015-008

In our review of bank transactions and other receivables, we noted five ACH web remittances from the Charter's School operating account in the total amount of \$18,890 to a PayPal account established under the Charter School's name to pay for board-approved travels. However, there was no record of board approving the ACH payments nor authorization to establish a PayPal account. Upon further inquiry, and review of supporting documents, a portion of the travel costs processed through PayPal for \$2,832 were for personal expenses. As of June 30, 2015, \$1,587 is outstanding.

Recommendation

We recommend review of procurement procedures and board policies on advances and travels.

Follow-up on Prior Year's Findings

In accordance with Government Auditing Standards, our procedures included a review of all prior year recommendations. Corrective actions had been completed or are still in process on prior year findings, with the exception of those that are identified as repeat or partially similar to findings in this year's recommendation (with asterisk *).

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Acknowledgment

We received the complete cooperation of all the officials of the Charter School and we greatly appreciate the courtesies extended to the members of our audit team.

Respectfully submitted,

A handwritten signature in black ink that reads "Leonora Galleros". The signature is written in a cursive, flowing style.

Leonora Galleros, CPA
Licensed Public School Accountant
No. 20CS002239400

December 17, 2015
Freehold, New Jersey

**PAULO FREIRE CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2014**

Submission to															
Grades	CHE reported On Roll	Reported on workpapers	Verified signed registration forms	Errors	Verified # days enrolled	Errors	Special Ed/ Bilingual	Verified documentation	Errors	Verified # days Service Provider	Errors	Low Income	Verified documentation	Errors	
Ninth	67	67	67	-	185	-	6	6	-	185	-	50	49	1	
Tenth	72	72	70	2	185	-	10	10	-	185	-	42	42	-	
Eleventh	67	67	65	2	185	-	9	9	-	185	-	47	47	-	
Total	206	206	202	4	555	-	25	25	-	555	-	139	138	1	
Percentage				1.9%		0.0%			0.0%		0.0%			0.7%	

**PAULO FREIRE CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF JUNE 30, 2015**

Submission to																
Grades	CHE reported On Roll	Reported on workpapers	Verified signed registration forms	Errors	Verified # days enrolled	Errors	Special Ed/ Bilingual	Verified documentation	Errors	Verified # days Service Provided	Errors	Low Income	Verified documentation	Errors	Percentage	
Ninth	63	63	63	-	185	-	5	5	-	185	-	46	45	1		
Tenth	68	68	68	-	185	-	9	9	-	185	-	38	38	-		
Eleventh	58	58	57	1	185	-	8	8	-	185	-	40	40	-		
Total	189	189	188	1	555	-	22	22	-	555	-	124	123	1		
Percentage				0.5%		0.0%			0.0%		0.0%			0.8%		

**THE PAULO FREIRE CHARTER SCHOOL
(COUNTY OF ESSEX, NEW JERSEY)**

EXCESS SURPLUS CALCULATION

June 30, 2015

SECTION 1

A. 2% Calculation of Excess Surplus

2014-15 Total General Fund Expenditures per the CAFR, Ex. C-1		\$ 3,426,094 (B)
Increased by:		
Transfer from Capital Outlay to Capital Projects Fund		\$ - (B1a)
Transfer from Capital Reserve to Capital Projects Fund		\$ - (B1b)
Transfer from General Fund to SRF for PreK-Regular		\$ - (B1c)
Transfer from General Fund to SRF for PreK-Inclusion		\$ - (B1d)
Decreased by:		
On-Behalf TPAF Pension & Social Security	\$ 91,389	(B2a)
Assets Acquired Under Capital Leases	\$ -	(B2b)
Adjusted 2014-15 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 3,334,705</u>	(B3)
2% of Adjusted 2014-15 General Fund Expenditures [(B3) times .02]	\$ 66,694	(B4)
Enter Greater of (B4) or \$250,000	<u>\$ 250,000</u>	(B5)
Increased by: Allowable Adjustment *	<u>\$ -</u>	(K)
Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)]		<u>\$ 250,000 (M)</u>

SECTION 2

Total General Fund - Fund Balances @ 6/30/2015 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 506,580	(C)
Decreased by:		
Year-end Encumbrances	\$ 8,964	(C1)
Legally Restricted – Designated for Subsequent Year’s Expenditures	\$ -	(C2)
Legally Restricted - Excess Surplus – Designated for Subsequent Year’s Expenditures **	\$ -	(C3)
Other Restricted Fund Balances ****	\$ -	(C4)
Assigned Fund Balance – Unreserved- Designated for Subsequent Year’s Expenditures	\$ -	(C5)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]		<u>\$ 497,616 (U1)</u>
Excess Surplus at June 30, 2015		<u>\$ 247,616</u>

SECTION 3

Restricted Fund Balance – Excess Surplus*** [(U1)-(M)] IF NEGATIVE ENTER -0-	<u>\$ -</u>	(E)
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Recapitulation of Excess Surplus as of June 30, 2014

Reserved Excess Surplus – Designated for Subsequent Year’s Expenditures **	\$ -	(C3)
Reserved Excess Surplus ***[(E)]	\$ -	(E)
Total Excess Surplus [(C3) + (E)]	<u>\$ -</u>	(D)

Charter schools are not subject to the excess surplus limitations. Charter schools auditors are required to document the calculation of excess surplus pursuant to N.J.S.A. 18A:7F-7 solely for the purpose of adherence to N.J.A.C. 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter schools spends "significantly less than budgeted and has accumulated a sizeable surplus."