

**LADY LIBERTY ACADEMY
CHARTER SCHOOL**

**Auditors' Management Report
On
Administrative Findings
Financial, Compliance
And Performance
June 30, 2015**

LADY LIBERTY ACADEMY CHARTER SCHOOL

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Tax Identification Number:	<u>22-3762597</u>

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Report of Independent Auditors

Honorable President and
Members of the Board of Trustees
Lady Liberty Academy Charter School
County of Essex, New Jersey

We have audited, in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, the basic financial statements of the Board of Trustees of Lady Liberty Academy Charter School in the County of Essex, for the year ended June 30, 2015, and have issued our report thereon dated October 27, 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 Lady Liberty Academy 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.

Olugbenga Olabintan, CPA

October 27, 2015
Newark, New Jersey

OLUGBENGA OLABINTAN
Certified Public Accountant/Consultant



Olugbenga Olabintan, CPA
Licensed Public School Accountant
No. 20CS00230200

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Auditors' Management Report On Administrative Findings
Financial, Compliance and Performance
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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 Charter School, and the records of the various funds under the auspices of the Charter School.

Administrative Practices and Procedures

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, 18A:13-13)

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Courtney Young	Board Secretary/School Business Administrator	\$175,000
Christopher Lessard	Treasurer of School Monies	\$175,000

There is a Public Employee's Faithful Performance Blanket Position Bond Policy covering all other employees with multiple coverage of \$25,000.

School Leaders Errors and Omissions Liability insurance was carried for all members of the Board of Trustees with coverage for each wrongful act of \$1,000,000

Tuition Charges

A review of the financial statements indicated that the charter school charged no tuition for any student attending the Charter School and all proceeds for a before/after school program were accounted for in an Enterprise Fund.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid during the period under review did not indicated some discrepancies with respect to signatures, certification or supporting documentation as follows:

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Finding # 2015-001 – Cash Disbursements – Support Documentations

We selected 80 cash disbursements for test work and noted the following exceptions:

For eleven (11) payments or 14%, we were not provided with the support for those payments (purchase orders, invoices, etc). Therefore, we could not verify that the purchase orders were signed by the School Business Administrator as evidence of approval of the purchase.

Recommendation:

We recommend that all payments should have the appropriate support. All POs should have the signature of the School Business Administrator (who is approved by the Board as the official Purchasing Agent for the Charter School). The signature is the only evidence that establishes the approval of the purchase prior to committing the Charter School to the liability.

Management Response:

The Charter School now has a new School Business Administrator starting September 2015. We will ensure that adequate support is provided for all payments and that all purchase orders are signed by the School Business Administrator.

Payroll Account

The net salaries of all employees of the Charter School 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 Executive Director and were certified by the Board President and Board Secretary/ School Business Administrator and Executive Director.

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholdings due to the general fund.

Payrolls were delivered to the School Business Administrator/Board Secretary who then made cash transfers from the Operating account to the separate bank accounts for net payroll and the withholdings.

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Finding # 2015-002 – Statutorily Required Health Benefits Deductions

Effective May 21, 2010, New Jersey passed NJ Chapter 2, P.L. 2010 law as part of the Health Benefits/Pension Benefits reform. The law requires state employees including employees of the Charter Schools to contribute a minimum of 1.5% of their annual gross base salaries towards their health benefits. We noted that the Charter took steps to set up the required deductions from the pay of those employees who were covered by the Health Insurance. However, there is evidence that the deductions were not being made consistently – some employees had deductions lower or higher than the required amount made out of their pay all year.

Recommendation:

We recommend that the Business Office should review the deductions made from employees' pay in the last two years and reconcile to the deductions that should have been made. Any discrepancies should be rectified by additional deductions or refunds made as appropriate in the fiscal year 2015-2016.

Management Response:

The Charter School has started the process of reviewing all employee deductions in ensuring the accuracy of those deductions.

Employee Certification

No exceptions noted

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchased orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable.

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 N.J.A.C 6A:23A-8.3.

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Instructional Expense

Finding # 2015-003 – Percentage of Instructional Expenditures

We performed the percentage test for instructional expenses in relation to the general fund expenditures; we noted that the instructional expenses accounted for 55.95% of the total general fund expenditures, which is slightly lower than the required percentage of 60%.

Recommendation:

We recommend that the Board continues to ensure that instructional expenses account for more than 60% of total general fund expenditures.

Management Response:

The Charter School budget for 2014-2015 was prepared to ensure that restricted funds (including the No Child Left Behind and IDEA grants) which were available for a defined period of time were fully expended during the year. Therefore, the portion of instructional expenses that would have pulled the percentage above 60% was charged to the restricted funds. It is also notable that the percentage of instructional expenditures that we achieved was not significantly lower than the 60% minimum. However, management will continue to increase the proportion of instructional expenditures.

Board Secretary's Records

We reviewed the financial and accounting records maintained by the Business Office and we noted one exception:

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Finding # 2015-004– State Aid Receivables – Due from Certain Non-Resident Districts

We noted that the State Aid amounts due from certain non-resident districts were materially outstanding as of June 30, 2015. The following is a summary of amounts due by district:

	Beginning			Ending
	Amount	State Aid	Cash	Amount
	Receivable/	Revenue Per	Received	Receivable/
Non-Resident	(Payable)	Jun- 15	During the	(Payable)
District	7/1/2014	Report	Year	6/30/2015
Bloomfield	\$ 24,468	\$ 47,902	\$ 39,508	\$ 32,862
East Orange	14,006	272,017	216,829	69,194
Irvington	2,050	278,771	180,961	99,860
City of Orange	12,232	53,187	121,392	(55,973)
South Orange/Maplewood	-	-	14,638	(14,638)
West Orange	15,292	-	17,433	(2,141)
Harrison	20,024	-	-	20,024
Kearny	11,140	-	8,754	2,386
Elizabeth	16,276	13,866	14,474	15,668
Hillside	(4,706)	-	1,891	(6,597)
Plainfield	2,551	-	2,755	(204)
Union	1,891	-	-	1,891
	<u>\$ 115,224</u>	<u>\$ 665,743</u>	<u>\$ 618,635</u>	<u>\$ 162,332</u>

We understand that the aggregate state aid revenue from these non-resident districts in 2015 was about 10% of the Charter Schools total state aid revenue. However, we believe that the receivables if not addressed could keep growing in the ensuing years. We understand that Administration is making concerted efforts to ensure that the amounts are collected timely. We however, recommend that a more aggressive approach may have to be employed in making sure that all non-resident districts pay their allotted state aid in full during the fiscal year. If necessary, the State's Charter School office could be enlisted in following up with the respective districts.

Management Response:

The Charter School has started the process of reconciling and following up with the respective sending districts.

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Treasurer's Records

Our review of the treasurer's records disclosed that the Charter School is in compliance with the State requirements. All cash accounts were reconciled monthly and reporting requirements were met on time.

No Child Left Behind (N.C.L.B)

The N.C.L.B financial exhibits are contained within the Special Revenue Section of the Charter School's CAFR. This section of the CAFR documents the financial position pertaining to the projects under Titles I and Title II of the No Child Left Behind.

Other Special Federal and/or State Projects

The Charter School's Special Projects were approved as listed on Schedule A and Schedule B located 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 – federal and state.

Finding # 2015-005 – Federal Grants Benefits and Reimbursement to State Under N.J.S.A 18A:66-90

We noted that the Charter School has not made the appropriate reimbursements (for both fiscal years 2013-2014 and 2014-2015) to the State of New Jersey under *N.J.S.A 18A:66-90*. The statute provides that “*each local board of education/charter school shall reimburse the state of New Jersey for the employer's cost of pensions, group life insurance, social security and other benefits to the Teacher's Pension and Annuity Fund (TPAF). This applies to the contractual salaries of TPAF member employee paid from federally financed programs.*”

Recommendation:

We recommend that the appropriate reimbursements for 2013-2014 and 2014-2015 fiscal years should be calculated and paid to the State of New Jersey under *N.J.S.A 18A:66-90*.

Management Response:

The Charter School is in the process of determining the amounts dues and payments will be processed shortly.

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Finding # 2015-006 – Deferred Revenue – Local Grants

We noted several local grants which have been carried in the books as deferred revenue for several years. The grants are from the following foundations:

Name of Foundation	Amount in Deferred Revenue as of 6/30/2015
MCI	\$ 28,581
GEM	25,000
Victoria Foundation	46,507
Total outstanding amount	<u>\$ 100,088</u>

We recommend that the Charter School should review the original award letters/agreement to determine the intended purpose of these local grants and expend the amounts accordingly.

Management Response:

The outstanding award amounts will be spent within the school year 2015-2016.

T.P.A.F. Reimbursement

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

School Purchasing Programs

Contracts and Agreements Requiring Advertising for Bids

Effective July 1, 2010 and thereafter the bid thresholds in accordance with N.J.S.A 18A: 18A-3 (as amended) and 18A:39-3 is \$36,000 (with a Qualified Purchasing Agent) and \$26,000 (without a Qualified Purchasing Agent), respectively. The law requiring bidding for public student transportation contract under N.J.S.A. 18A:39-3 is currently \$17,200.

The Charter School Board of Trustees 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.

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Based on the results of our examination, we did not note any individual payments, contracts, or agreements 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 provision of N.J.S.A 18A18A-4, amended.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A 18A:A8A-5.

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or goods or services, the results of such accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The system of records did not provide for an accumulation of purchases for which the Charter School used contracts entered into by the state Department of Purchase and Property pursuant to ch.114,P.L.1977, therefore, the extent of such purchases could not reasonably be ascertained.

School Food Service

The financial transactions and statistical records of the Charter School's 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. As part of the claims review process the Edit Check Worksheet was completed. We noted that meals claimed agreed with meal count records. No exceptions noted. We also noted that the reimbursement claims were submitted/certified in a timely manner. Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served was compared to the number of valid applications on file, times the number of operating days, on a class by class basis. No exceptions noted. The free and reduced price meals and free milk policy is uniformly administered throughout the Charter school. The required verification procedures for free and reduced price applications were completed and available for review.

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

The cash disbursement 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-month average expenditures.

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Cash receipts and bank records were reviewed for timely deposit. No exceptions noted.

Food Distribution Program commodities were not received and therefore no inventory were maintained.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section G of the CAFR.

Finding 2015-007

We noted that the Enterprise Fund - Child Nutrition Program incurred a deficit of \$33,592 for the year ended June 30, 2015. We further observed that the Food Program has consistently incurred deficits in the last couple of years. The deficit was funded by a transfer from the General Fund. However, it should be noted that the deficit incurred in 2015 was about 35% less than the \$57,007 food deficit incurred in the prior fiscal year 2014.

Recommendation:

However, we recommend that the Board should explore other ways of raising unrestricted donations/fund to fund the recurring deficits.

Management Response:

Student Body Activities

Our audit revealed some student body activities during the fiscal year ended June 30, 2015. All transactions were properly accounted for.

Enrollment Counts and Submission to the Department

Our audit procedures included a test of information reported on the enrollment count for October 15, 2014 and the last day of school for on-roll, special education, bilingual and low income students and a review of the Charter School's procedures related to its completion. The results of our procedures are presented in the Schedule of Audited Enrollments.

Follow-up on Prior Year's Findings

In accordance with government auditing standards, our procedures included a review of all prior year recommendations. All of the prior year's findings were repeated except the finding:

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- Cash disbursements without adequate support and purchase orders not properly signed.
- Statutorily required health benefits deductions not being consistently deducted.
- Instructional expenditures less than the required minimum of 60%
- Food program incurred a deficit.
- Reimbursements to the state under N.J.S.A 18A:66-90 relating to federal grants were not paid.

Acknowledgement

We received the complete cooperation of all the officials of the charter school and we greatly appreciate the courtesies extended to the members of the audit team.

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Food Service Fund
Numbers For Meals Served and (Over)/Underclaim
Enterprise Fund
For the Year Ended June 30, 2015

Program	Meal Category	Meals Claimed	Meals Verified	Difference	Rate	(Over) Under Claim
National School Lunch	Paid	2,233	2,233	-	0.40	\$ -
	Reduced	-	-	-	2.72	-
	Free	59,874	59,874	-	3.12	-
	Total	<u>62,107</u>	<u>62,107</u>	<u>-</u>		<u>-</u>
School Breakfast	Paid	1,221	1,221	-	0.28	-
	Reduced	-	-	-	1.63	-
	Free	32,685	32,685	-	1.93	-
	Total	<u>33,906</u>	<u>33,906</u>	<u>-</u>		<u>-</u>
National After School Snacks	Paid	-	-	-	-	-
	Reduced	-	-	-	-	-
	Free	-	-	-	-	-
	Total	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
Total Net (Over)/Underclaim						<u><u>\$ -</u></u>

LADY LIBERTY ACADEMY CHARTER SCHOOL
Application for Charter School Aid
Schedule of Audited Enrollments
Enrollment Count as of October 15, 2014

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Kindergarten	49	25	25	-	25	-	-	-	-	-	-	21	21	-
One	52	31	31	-	31	-	2	2	-	2	-	25	25	-
Two	53	26	26	-	26	-	1	1	-	1	-	26	26	-
Three	50	23	23	-	23	-	2	2	-	2	-	23	23	-
Four	48	23	23	-	23	-	2	2	-	2	-	20	20	-
Five	44	23	23	-	22	1	1	1	-	1	-	23	23	-
Six	40	20	20	-	20	-	3	3	-	3	-	20	20	-
Seven	41	24	24	-	24	-	2	2	-	2	-	21	21	-
Eight	38	20	20	-	20	-	1	1	-	1	-	20	20	-
Total	415	215	215	0	214	1	14	14	0	14	0	199	199	-
Percentage				0.00%		0.47%			0.00%		0.00%			0.00%

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Application for Charter School Aid
Schedule of Audited Enrollments
Enrollment Count as of Last Day of School

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Kindergarten	48	24	24	-	24	-	-	-	-	-	-	21	21	-
One	51	18	18	-	18	-	-	-	-	-	-	21	21	-
Two	51	24	24	-	24	-	-	-	-	-	-	22	22	-
Three	50	19	19	-	19	-	1	1	-	1	-	21	21	-
Four	48	22	22	-	22	-	-	-	-	-	-	26	26	-
Five	45	23	23	-	23	-	2	2	-	2	-	15	15	-
Six	40	20	20	-	20	-	1	1	-	1	-	15	15	-
Seven	43	22	22	-	22	-	2	2	-	2	-	21	21	-
Eight	35	21	21	-	21	-	6	6	-	6	-	18	18	-
Total	411	193	193	0	193	0	12	12	0	12	0	180	180	-
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

**LADY LIBERTY ACADEMY CHARTER SCHOOL
NET CASH RESOURCE SCHEDULE**

Net cash resources did/did not exceed three months of expenditures
Proprietary Funds - Food Service
Year ended June 30, 2015

<u>Net Cash Resources:</u>		Food Service B - 4/5	
CAFR	*	Current Assets	
B-4		Cash & Cash Equiv.	\$ 84,818
B-4		Due from Other Gov'ts	20,464
B-4		Accounts Receivable	-
B-4		Investments	-
CAFR		Current Liabilities	
B-4		Less Accounts Payable	-
B-4		Less Accruals	-
B-4		Less Due to Other Funds	(105,282)
B-4		Less Deferred Revenue	-
		Net Cash Resources	\$ - (A)
 <u>Net Adj. Total Operating Expense:</u>			
B-5		Tot. Operating Exp.	283,425
B-5		Less Depreciation	-
		Adj. Tot. Oper. Exp.	\$ 283,425 (B)
 <u>Average Monthly Operating Expense:</u>			
		B / 10	\$ 28,343 (C)
 <u>Three times monthly Average:</u>			
		3 X C	\$ 85,028 (D)

TOTAL IN BOX A	\$	-	
LESS TOTAL IN BOX D	\$	(85,027.50)	
NET	\$	(85,027.50)	

From above:

D is greater than A, cash does not exceed 3 X average monthly operating expenses.

* Inventories are not to be included in total current assets.

Source: Charter School's CAFR