

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS
CHARTER SCHOOLS AND
RENAISSANCE SCHOOL PROJECTS**

THE AUDIT PROGRAM

2015-2016

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
OFFICE OF SCHOOL FINANCE
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SIGNIFICANT CHANGES FOR 2015-16

- ❖ Added reference to the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance) applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014. These administrative rules and cost principle requirements also apply to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. The new administrative rules and cost principles revise other standards related to audit requirements and are first effective for the fiscal year ending June 30, 2016. Of note, effective for the fiscal year ending June 30, 2016 the single audit threshold will increase from the current \$500,000 to \$750,000 of expenditures of federal awards; the reporting threshold for questioned costs increases from \$10,000 to \$25,000; and the major program “Type A” program threshold has been increased from \$300,000 to \$750,000. Along with the increased threshold, the program type determination has been modified to focus on areas identified as having internal control deficiencies that are also identified as material weaknesses.
- ❖ Added that the New Jersey Department of the Treasury-Office of Management and Budget has revised the State’s Single Audit Policy in recognition of the administrative rules and cost principle requirements contained in the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Circular Letter (CL) 15-08-OMB replaces CL 04-04-OMB and specifies that rules and requirements contained in the federal OMB are also applicable to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014.
- ❖ Clarified that the revised State’s Single Audit Policy effective December 26, 2014 established in the State of New Jersey Department of the Treasury Office of Management and Budget Circular Letter 15-08-OMB establishes the single audit threshold as \$750,000 of expenditures of federal or State financial assistance during any fiscal year period beginning after December 26, 2014.

OTHER CHANGES / UPDATES FOR 2015-16

**The following is a summary of changes / updates:
(changes for 2015-16 are highlighted in gray)**

General changes are found throughout the document and include:

Deletion of all references to OMB A-133 and NJ OMB 04-04 as the circulars have been replaced by the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200 and NJ Treasury Circular OMB 15-08.*

Specific changes are found in the following sections/chapters:

Introduction

- No changes.

Section I-1

- Added guidance that the State’s Single Audit Policy effective December 26, 2014 established in the State of New Jersey Department of the Treasury Office of Management and Budget Circular Letter 15-08-OMB establishes the single audit threshold as \$750,000 of expenditures of federal or State financial assistance during any fiscal year period beginning after December 26, 2014. Treasury Circular Letter 15-08-OMB maintains that recipients that expend less than \$750,000 in federal or State financial assistance within the fiscal year, but expend \$100,000 or more in State and/or federal financial assistance within the fiscal year, must have either a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book), or a program-specific audit in accordance with the Act, Amendments, Subpart F – Audit Requirements (of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) and State policy. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards section 200.61 defines internal control as a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations; Reliability of reporting for internal and external use; and compliance with applicable laws and regulations.
- Added guidance that Section 200.62 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards provides a specific definition for “Internal Control over Compliance Requirements for Federal Awards”.

Section I-2

- Added guidance to include required board policy on Electronic Communications Between School Employees and Students.

Section I-3

- Deleted reference to FY14 revised Choice Aid Notices.
- Replaced term “Educationally Disabled Student” with “Special Education Students”
- Clarified guidance to reflect that charter school students are reported to the Department through the resident school district’s ASSA submission as “resident students” for purposes of calculating a school district’s state aid. Data from the Charter School Enrollment system is prepopulated in the school district’s ASSA.
- Clarified that charter schools conduct an annual October 15 count to conform with the school district’s enrollment count date.

- Added detailed guidance on charter school requirement for utilization of the New Jersey School Register and the auditor’s responsibilities in testing the Register.
- Added detailed guidance on renaissance school project requirement for utilization of the New Jersey School Register and the auditor’s responsibilities in testing the Register.
- Clarified that renaissance school projects do not submit an ASSA, rather their data is included with their resident school district data.
- Added specific guidance related to Special Education grade level tables for renaissance school projects.
- Updated DRTRS guidance to reflect the new web-based DRTRS software and reporting system.
- Updated bid threshold for contracted transportation services from \$18,300 to \$18,800.

Section I-4

- No changes.

Section I-5

- Updated bid thresholds for school districts/charter schools with Qualified Purchasing Agents (QPAs) from \$36,000 to \$40,000 and school districts/charter schools without QPAs from \$26,000 to \$29,000 effective July 1, 2015.
- Added guidance on new legislation mandating that for all goods, professional services, general services and construction contracts, vendors, district/charter school contracts must include prescribed affirmative action language.

Section I-6

- Added guidance that effective for reporting periods beginning after June 15, 2015, *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* establishes the hierarchy of GAAP for state and local governments.

Section I-7

- No changes.

Section I-8

- No changes.

Section II-10

- Added guidance related to *GASB Statement No. 79, Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for state and local governments that participate in qualifying external

investment pools that measure for financial reporting purposes all of its investments at amortized cost. The Department believes GASB Statement No. 79 will have limited impact on school districts, charter schools and renaissance school projects.

- Added guidance related to *GASB 72, Fair Value and Measurement Application*, which applies to donated capital assets, donated works of art, donated historical treasures, and also to similar assets and capital assets received in a service concession arrangement, such as the investment held in Solar Renewable Energy Certificates (SRECs). The Statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- Added statement that the CDL drawdown period ends with the 2015-16 year.
- Added that the Extraordinary Aid payments are expected to be made mid-late September, 2016.
- Deleted old reference to certification of the tuition rates occurring after two years, not three.
- Added guidance that New Jersey Travel *Regulation Circular No. 16-11-OMB* effective March 1, 2016 superseded New Jersey Travel Regulation Circular No. 12-04. The newer circular includes a relaxation of the rules regarding the use of Amtrak rail travel and updates the allowable reimbursement for meals when authorized.

Section II-20

- Clarified guidance that TPAF/FICA reimbursements are due to the state by October 1st in conformity with the final grant report due date of 90 days after the year end.
- Updated FICA and Medicare wage limits for 2015 and 2016.
- Reiterated guidance that the auditor signature is no longer required on the TPAF/FICA reimbursement form. The district's public school accountant will need to verify these calculations and prepare a comment in the AMR.
- Removed reference to the ProjectSERV grants awarded in 2013.

Section II-30

- Added guidance that P.L. 2015, c 257, effective January 19, 2016 amends N.J.S.A.18A:7G to eliminate the \$500,000 cap on the cost of capital projects that may be included in an SDA district's annual capital outlay budget.

Section II-40

- No changes.

Section II-50

- No changes.

Section II-60

- Updated all memos and website links.
- Added guidance that FSMCs may charge interest on late payments, but the interest cannot come from the food service account.
- Updated guidance to reflect reference to *2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance, which supersedes OMB 04-04, The Single Audit Act, Amendments, OMB Circular No. A-133 Revised (OMB A-133) and related revisions. Deleted website link to outdated federal guidance.
- Deleted reference to the School Breakfast Expansion program from listing of child nutrition programs to examine.
- Added guidance to clarify that audit procedures of the child nutrition program are only applicable to SFA programs audited as Major Programs. Where the school food service program is not selected as a major federal and/or state program, but exceeds \$100,000 in federal and/or state support, auditors are required to inquire of school management or appropriate school food service personnel, as to whether the SFA has any overclaims or underclaims, and whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs. Each inquiry requires appropriate comment in the AMR.
- Updated guidance to clarify that for electronic applications, Free and Reduced Price Eligibility Software Systems contain a box which parents are required to check certifying that all information is true. This certification serves as the parent signature.
- Updated the FY 2105-16 timeline in which Direct Certification is to be performed.
- Added guidance to reflect that "sending" school districts must obtain the direct certification lists from the school where the children are consuming meals for the prevention of duplication of student matches SNEARS.
- Added guidance that the template for the Household Application for Free and Reduced Price School Meals changed for the 2015-16 School Year.
- Added guidance that Household Applications where the income entry is left blank are not considered incomplete, unless the application lacks other data.
- Added clarification that SFAs may elect (but are not required) to expand the verification sample beyond 3%, if conditions exist that indicate discrepancies are present in the selected sample, the SFA may elect to expand the verification sample beyond 3%.
- Added guidance that SFAs, must randomly select the required number of applications from all error prone applications, if the number of error prone applications exceeds the required 3% sample size.
- Added guidance that, when Child Nutrition Programs are audited as a major program, auditors must comment on whether USDA commodities were received and, if received, whether or not commodities were properly processed, warehoused, and inventoried on a FIFO basis.

- Added guidance that auditor review of meal count records is required only where the school food authority programs are audited as a major program.
- Deleted requirement for auditors to verify the initial approval date in order to validate the six cent reimbursement HHFKA Performance Based Program.
- Updated National School Program Reimbursement Rate Schedule.

Section II-70

- No Changes.

Section II-80

- Updated website to the Department of Labor Worker Unemployment Rates.

Section II-90

- No Changes.

Section II -CA

- Updated guidance to reflect that *GASB Statement No. 72, Fair Value and Measurement Application* is effective for reporting periods beginning after June 15, 2015. Donated capital assets should be measured at acquisition value for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. After June 15, 2015, donated capital assets are no longer reported at the estimated fair value at the time of acquisition.

Section II-LT

- No Changes.

Section II-SA

- Added guidance related to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance) applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014. The Uniform Grant Guidance consolidates the former grants administrative circulars (Circular A-89, A-102 and A-110), the cost principle circulars (Circular A-21, A-87, A-122), and Circular A-133 into a single guidance. These administrative rules and cost principle requirements apply to direct federal funding and also apply to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. Accordingly, beginning with the June 30, 2016 year end, and all subsequent year ends, the administrative requirements, cost principles, and single audit requirements contained in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are applicable. Effective for

the fiscal year ending June 30, 2016 the single audit threshold increased from \$500,000 to \$750,000 of expenditures of federal awards; the major program threshold increased from \$300,000 to \$750,000; the major program determination is modified to focus on areas identified as having internal control deficiencies that are also identified as material weaknesses; and the reporting threshold for questioned costs increased from \$10,000 to \$25,000.

- Updated guidance related to the State of New Jersey Department of the Treasury Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid. All state agencies that disburse federal grant, state grant or state aid funds to recipients that expend \$750,000 or more in federal financial assistance or State financial assistance within their fiscal year must require those recipients to have an annual single audit, or a program specific audit, performed in accordance with the Act, Amendments, Subpart F - Audit Requirements and State policy. The federal government will not pay for any costs of auditing a recipient that is exempted from having an audit conducted under the Act and Subpart F for reasons that expenditures under federal awards are less than \$750,000 during the recipient's fiscal year.
- Added guidance that once it is determined that a federal and/or State single audit is required, auditors are to refer to section 200.518 of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* which requires the auditor to use a risk-based approach to determine which Federal programs are major programs; section 200.519 for risk criteria; and section 200.520 for low-risk auditee criteria. New Jersey Treasury Circular 15-08-OMB, Part III, Policy, requires auditors to apply the same risk-based approach to programs supported by State Financial Assistance as required for federal programs.
- Added guidance that the deadline to purchase instructional equipment with 2016 Perkins Grant funds was extended to June 30, 2016. Grantees are expected to ensure that instructional equipment is purchased, received, installed and available for student instruction, allowing students to benefit from the equipment during the project period (July 1, 2015-June 30, 2016). Items purchased must be approved in the 2016 Perkins Grant application, and funds must be obligated no later than June 30, 2016 (end of the project period). Perkins Grants do not permit carryover funds; therefore, any funds not obligated by June 30, 2016, will not be available for obligation beyond this date.
- Added guidance to reflect that the 2015-2016 Individuals with Disabilities Education Act – Part B (IDEA-B) Application was amended to include 2014-2015 carryover/overpayments. Districts/charter schools/renaissance school projects were instructed to incorporate the 2014-2015 Carryover/Overpayments within the Electronic Web Enabled Grant system (EWEG) requirements with respect to obligating and liquidating funds as set forth, as well as applicable timeframes.
- Included a table for determination of major programs pursuant to 2 CFR 200.518.
- Summarized criteria for Low Risk Auditee as provided by the Uniform Grant Guidance.
- Added guidance regarding Departmental loans against future State aid payments and the impact on the Schedule of State Financial Assistance. Departmental loans made to the school district will be repaid to the Department through deductions from future

period State Aid payments. Refer to the audit guidance in Section II-10 of this Audit Program for additional information regarding the recording and reporting of loans against future State Aid.

- Updated the detailed instructions for the preparation of the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Financial Assistance. Note: several columns were added to comply with the requirements of the Uniform Grant Guidance.
- Clarified the scenarios that can happen after the grantee submits the final expenditure report and it is approved in EWEG.
- Clarified that the liquidation period for federal grants is ninety (90) calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award (section 200.343).
- Removed all references to the SAGE reporting system for IDEA grants. IDEA grants are included in the EWEG system for 2015-16 and beyond.
- Clarified that the policy for reporting questioned costs has been revised from \$10,000 to \$25,000 to coincide with the federal threshold provided in section 200.516.
- Updated the Federal Program Numbers for the Catalog of Federal Domestic Assistance and the Federal Award Identification Numbers.
- Added links to Department of Education Broadcast Notifications related to grant awards.

Section III-1

- Clarified reporting package due date as December 5, 2016.
- Clarified that it is the responsibility of district/charter school/renaissance school project personnel to access the OFAC CAFR Repository and upload the entire Audit Reporting Package prior to the corresponding statutory deadlines.
- Clarified the Audit Reporting Package submission instructions and updated certain contact information for DOE personnel.
- Updated the section to reference the regulatory authority for Single Audit Guidance as *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 2 CFR 200 and NJOMB 15-08 throughout the section.
- Revised the Corrective Action Plan form to reflect the requirement that the corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.

Section III-2

- Noted that any grant funds which are considered a 2014-15 carry-forward must be audited under the new Uniform Grant Regulations.
- Included samples for the addition of the federal award identification number (FAIN) number in addition to the CFDA number in the listing of any grant award.

Section III-3

- Updated post-retirement benefit footnote for the State Health Benefits Program (SHBP) related to qualified local education active and retired participants, who retire from a board of education or county college, members of PERS and ABP who retire with 25 years of service or on a disability.

Section III-4

- Added a sample finding and recommendation where the district did not record the potential liability or disclose the loss contingency related to ongoing labor contract negotiations as required by GASBI 6 and GASBS 62.
- Added sample statement for where the school food service program was not selected as a major federal and/or state program, but exceeded \$100,000 in federal and/or state support. Auditors are required to inquire of school management or appropriate school food service personnel, as to whether the SFA had any overclaims or underclaims and comment whether exceptions were noted.
- Added a sample statement for where the school food service program is not selected as a major federal and/or state program, but exceeded \$100,000 in federal and/or state support. Auditors are required to inquire of school management or appropriate school food service personnel, as to whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs and comment whether exceptions were noted.
- Added a sample finding and recommendation (applicable where the school food authority is audited as a major program) to the AMR School Food Service section regarding instances where the school district/charter school/renaissance school project did not maintain the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.
- Added sample finding and recommendation (whether or not the school food authority is audited as a major program) to ensure that school district/charter school/renaissance school districts do not charge the salary of the designated determining and the confirming official in the Community Eligibility Provision school to the food service fund.
- Added sample finding and recommendation to ensure Community Eligibility Schools only use the DOE New Jersey Household Information Survey for the determination of student's low-income status for ASSA reporting.

Section III-5

- Added that school districts, charter schools and renaissance school projects will no longer have to complete the Indirect Cost Rate Tab prior to certifying Audsum to the Department of Education. The detail for the calculation of the Indirect Cost Rate is captured within the chart of account line items and reported in Audsum accordingly.
- Added emphasis that values entered in the Unspendable/Restricted/Committed/Assigned Fund Balance section of the Audsum will impact the Recap of Balance of the following year budget software screen.

Section III-6

- Added to the “Administrative Questionnaire”, a check point about the charter school and renaissance school project reporting of administrative expenditures in accordance with the NJ Chart of Accounts.
- Updated the budgeted State Per Pupil cost for legal fees from \$49 to \$51 and updated the actual State Per Pupil cost for legal fees from \$56 to \$60.
- Added to the “Checklist for Annual Audit” and the “Audit Questionnaire” the requirement that a report of contracts to be renewed, awarded or expired during the school year is included in the minutes of the board meeting.
- Added to the “Checklist for Annual Audit” and the “Audit Questionnaire” the requirement to include the policy for the Electronic Communications Between School Employees and Students as part of the required Board of Education/Board of Trustees Policies.
- Updated all references to the Uniform Administrative Requirements 2 CFR 200.

Section III-7

- Added links to the new template for the Audit Recommendations Summary.
- Updated links for the Certificate of Implementation of Corrective Action Plan and the Corrective Action Plan.
- Clarified that the board action and disposition of each audit recommendation must be noted in the minutes of the board.
- Clarified that the school district/charter school/renaissance school project shall submit the audit synopsis and Corrective Action Plan to the DOE via upload to the CAFR repository.

Section III-8

- Added to the “Quality Assessment Review”, a question relating to the reporting of deferred outflows of pensions pursuant to GASB Statement No. 68.
- Updated section to reflect the AICPA’s current illustrative audit reports for governmental entities.

OVERVIEW

Financial Accounting for New Jersey School Districts/Charter Schools/Renaissance School Projects (The Audit Program) is updated annually and includes instructions for both district/charter school/renaissance school project personnel and public school accountants regarding preparing for and performing the annual audit. The full text of *The Audit Program* is available on the web site <http://www.nj.gov/education/finance/fp/audit/>.

The *Comprehensive Annual Financial Report* (CAFR) is the basis for the annual audit. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23A-16*) require school districts/charter schools/renaissance school projects to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report (CAFR) section at the end of this introduction provides additional information on the CAFR.

Renaissance School Projects:

As amended by P.L. 2014, c.61, N.J.S.A. 18A:36C-7h provides that a nonprofit entity shall operate a renaissance school project “in accordance with the contract entered into pursuant to section 6 of this act, the provisions of this act, and the laws and regulations that govern charter schools which are not inconsistent with this act.” Accordingly, in this Audit Program, unless specifically noted, “charter schools” shall also refer to “renaissance school project”.

Guidance unique or specific to districts that are required to use **school-based budgeting (SBB)** is included in the applicable sections of this Audit Program as follows:

Description	Section-Chapter	Rationale
Refer to website for guidance on CAFR schedules specific to districts required to use school-based budgeting	Intro-xxiv	Districts required to use school-based budgeting must prepare schedules reporting activity and balances in fund 15, the subfund used for school level accounting and reporting.
Excess surplus calculation modification for expenditures allocated to restricted federal resources and capital leases with blended funds	II-10	Fund 15 expenditures blended with federal must be allocated to state and local.
TPAF and FICA Reimbursement Calculation for SBB districts	II-20	The blending of federal, state and local funds in the school-based budgets recorded in Fund 15 necessitates a calculation of the salary amounts paid in Fund 15, which are attributable to federal sources.
Schoolwide Programs description and compliance	II-SA	Expanded explanation of schoolwide programs as related to Title I and how these are treated for preparation of the

Schedule of Federal Expenditures		
Blended resources and computing Type A and Type B programs	II-SA	Expenditures incurred in schoolwide programs must be included in the total expenditures of the program contributing the funds when determining Type A and Type B programs for Single Audit testing.

Reference Materials

Reference materials published by outside organizations are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. The American Institute of Certified Public Accountants (AICPA) issues *Checklist and Illustrative Financial Statements for State and Local Governmental Units* that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

Responsibility/Government Auditing Standards

N.J.A.C. 6A:23A-16.2(i) requires the issuance of a CAFR by every school district/charter school/renaissance school project, along with interim financial statements to facilitate management control of financial operations. *N.J.S.A. 18A:6-100 g.* requires the board of an Educational Information and Resource Center to have performed an annual audit of the center's accounts and financial transactions in the manner provided by *N.J.S.A. 18A:23-1 et.seq.* Financial statements are the responsibility of the board of education's/board of trustee's/board of directors management and are its representation of the financial position at a given point in time and the operations of the district/charter school/renaissance school project during a period of time.

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (may be referred to as the *Uniform Administrative Requirements* throughout this Audit Program) is available on the U.S. Government Publishing Office website at: http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

Federal Requirements:

For the year ended June 30, 2016, the federal Single Audit Act requires organizations that expend \$750,000 or more in federal financial assistance have an audit (single audit or program specific audit) conducted in accordance with 2 CFR Part 200- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Administrative Requirements)* Subpart F – Audit Requirements (200.501).

State Requirements:

NJ Circular Letter 15-08-OMB specifies the State single audit threshold for the expenditure of State of New Jersey financial assistance is \$750,000 for the fiscal year ended June 30, 2016. Section III (POLICY) of NJ Circular Letter 15-08-OMB provides that New Jersey school districts/charter schools/renaissance school projects/educational resource and information centers that expend \$750,000 or more in State or federal financial assistance in the fiscal year under audit

must have a single audit, or program specific audit, performed in accordance with the Act, Amendments, 2 CFR 200 – Subpart F – Audit Requirements, and State policy. New Jersey Circular Letter 15-08-OMB is available on the Treasury website at: http://www.state.nj.us/infobank/circular/cir1508_omb.pdf

NJ Circular Letter 15-08-OMB specifies that recipients of federal grant, State grant or State aid funds that expend less than \$750,000 in federal **or** State financial assistance but expend \$100,000 or more in State **and/or** federal financial assistance within the fiscal year, must have either a financial statement audit performed in accordance with *Government Auditing Standards August 2011 Revision*, (Yellow Book), or a program specific audit performed in accordance with 2 CFR 200 the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* Subpart F – Audit Requirements, and State policy.

Government Auditing Standards August 2011 Revision, (Yellow Book) (GAGAS) is available through the website: <http://gao.gov/assets/590/587281.pdf>

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The *statutory* submission date is the fifth day after five months (*N.J.S.A. 18A:23-1*) after the end of the school fiscal year. Accordingly, the deadline for submission of June 30, 2015 audits is **Monday, December 5, 2016**. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts/charter schools/renaissance school projects/EIRC's failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. The CAFR

The CAFR is the school district, charter school, or renaissance school project official annual report. It should include all funds of the district/charter school/renaissance school project. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a school district, or charter school, renaissance school project, or EIRC falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or the reporting requirements under NJOMB Treasury Circular Letter or 15-08, the CAFR will also contain a single audit section. The CAFR will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each school district, charter school, renaissance school project, or EIRC as well as any additional statements, schedules, and disclosures required under the circumstances of the school district, charter school, renaissance school project, or EIRC. The report must also include all applicable single audit opinion letters prepared by the local school district, charter school, renaissance school project, or EIRC auditor in the single audit section. Links to sample single audit letters and New Jersey specific reference are provided in Section III – Chapter 2 of *The Audit Program*.

2. The Auditor’s Management Report on Administrative Findings, Financial, Compliance and Performance (AMR)

This separate report will serve as the auditor’s report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with N.J.S.A. 18A:23-9 and Finance Policy Bulletin 200-1. A sample Auditor’s Management Report is located in Section III – Chapter 4.

3. Audit Summary (Audsum)

The Audit Summary (Audsum) is an electronic submission of audited data. Audsum is completed through a web application available (anticipated availability September 2016) to auditors through the DOE website at: <http://www.state.nj.us/education/finance/audsum/> and to schools through NJDOE Homeroom at: <http://homeroom.state.nj.us/>. First-time-user auditors must create a user name and password in order to complete their registration with the Audsum web application. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. If you need to be sent a reminder of your user name and/or password, or change your user name and/or password, please send a request to the Audsum email at: audsum@doe.state.nj.us. User names and passwords will remain active until the auditor requests removal through an email request to audsum@doe.state.nj.us. School auditors must annually request a PIN for each of their school audit clients by emailing a PIN request to: audsum@doe.state.nj.us. The auditor/user must then link the DOE assigned district PIN for the audit year to their user name and password in order to access Audsum screens for a school client. The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The school auditor and the board secretary/business administrator are required to indicate their respective approval of the Audsum data through the electronic signature process available on the web application using the Data Finalize and Certify screen. The school’s board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2016). This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the school budget software maintained by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

Transmission of the reporting package to the OFAC CAFR Repository is mandatory for year end June 30, 2016. The OFAC CAFR Repository may be accessed through NJDOE Homeroom at <http://homeroom.state.nj.us/>. The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board for conformance with GAAP. The AMR is the auditor’s report to the board of education/board of Trustees/Board of Directors of his/her findings and recommendations as a result of the audit. In accordance with the *Uniform Administrative Requirements* the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the Data Collection form (SF-SAC) whenever a federal single audit of the school district, charter school, renaissance school project, or EIRC is required. In conformity with the federal due date, the Federal Data Collection Form (SF-SAC) may be submitted to the New Jersey Department of Education within 30 days after the audit report is filed with the district board of education, charter school/renaissance school project board of trustees, or EIRC board of directors. Accordingly, associated audit items and the upload of audit files transmitted to the OFAC CAFR Repository

may be submitted on time without including the archived copy of the SF-SAC. When available, and in accordance with the federal due date, the archived copy of the SF-SAC must be uploaded to the OFAC CAFR Repository.

As of January 2, 2015, The OMB requires all PDF uploads of the reporting package submitted to the Federal Audit Clearinghouse to be text-searchable, unlocked and unencrypted. Information about the federal submission requirements can be found at <https://harvester.census.gov/facweb/default.aspx/>. Consistent with the submission requirements established by the Federal Audit Clearinghouse (FAC), New Jersey also requires all audit file submissions to the CAFR repository be unlocked, unencrypted, text-searchable PDF files with standard audit finding reference numbers in sequential format (e.g. 2015-001 through 2015-999).

The *Uniform Administrative Requirements* and NJOMB Circular Letter 15-08-OMB require that the Schedule of Findings and Questioned Costs contain, but not be limited to, significant deficiencies in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in *Uniform Administrative Requirements* (Subpart F 200.516). *N.J.S.A. 18A:23-9* states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each school district." Accordingly, the Auditor's Management Report (AMR) must include all findings, including any items contained in the Schedule of Findings and Questioned Costs and the Legal or Regulatory Requirements section of the Auditor's Report.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

New Jersey statute (*N.J.S.A.18A:4-14*) requires a school district, charter school, renaissance school project, or EIRC maintain bookkeeping consistent with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial reporting requirements of GAAP include the issuance of a CAFR.

The financial statements are the responsibility of the school's management (board of education, board of trustees, board of directors). AU-C Section 220 of the *Clarified Statements on Auditing Standards* issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) addresses auditor independence as part of quality control for an engagement conducted in accordance with generally accepted auditing standards. General Accounting Office (GAO) *Government Auditing Standards (Yellow Book Rev. 2011)* paragraphs 3.02 through 3.59 contain the independence standards that comprise the Generally Accepted Governmental Auditing Standards (GAGAS). Paragraph 3.40 addresses non-audit activities such as financial statement preparation, modified accrual to accrual conversions, and other non-audit services provided to an audit client. Those non-audit activities must be evaluated using the conceptual framework provided in paragraph 3.46.

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00220.pdf>

<http://www.gao.gov/assets/590/587281.pdf>

Financial statement preparers of school district, charter school, renaissance school project, or EIRC financial reports should reference the NJ Department of Education (NJDOE) website at <http://www.state.nj.us/education/finance/fp/cafr/> (click on CAFR) for selected sample statements and schedules, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by school staff. Please be aware that those illustrations may not be in conformity with recent pronouncements and statements issued by GASB. Information on Management Discussion and Analysis (MD&A) requirements and guidance on financial reporting for school districts required to use school-based budgeting are also available at that web site to assist auditors and district staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE requires that each governmental fund be treated as a major fund in the fund statements for GASBS 34 presentation. Questions relating to the preparation of NJ school CAFRs may be emailed to doecafr@doe.state.nj.us.

The format of the CAFR should adhere to the Outline and numbering of the exhibits as shown on the following pages. If a section or exhibit is not applicable to the school district, charter school, renaissance school project, or EIRC, the notation "N/A" should be indicated against that item in the Table of Contents.

Auditor's Note – Auditors should refer to the website <http://www.nj.gov/education/finance/fp/cafr/> for guidance on schedules that specifically relate to districts that are required to use school-based budgeting.

The CAFR includes the Introduction, Financial, Statistical, and Single Audit Sections. The contents of each section are as follows:

Introductory Section – Although not required by GAAP, this section is used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the school district/charter school/ renaissance school project and information useful to the reader to evaluate the district’s/charter school’s financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR.

Financial Section – This section includes the: 1) independent auditor’s report, 2) Management's Discussion and Analysis (MD&A), 3) basic financial statements including the school district, charter school, renaissance school project, or EIRC -wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, and 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a school district has only two programs in the Proprietary Fund, a combining schedule would not be necessary. The School Level Schedules (D series in the Outline) should only be included for school districts that are required to use school-based budgeting. Indicate by “N/A” when a schedule is not applicable.

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the school district, charter school, renaissance school project, or EIRC and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. Sample schedules under GASB Statement No. 44 (GASBS 44) and guidance for preparing the schedules can be found on the NJDOE web site <http://www.state.nj.us/education/finance/fp/cafr/> (click on CAFR). The Outline of the CAFR reflects these revisions. Statistical information to assist school auditors in preparing this section is posted on that the department’s web site (click on Audit Information, and then 2015-16 Audit Program).

Charter schools are required to calculate and report financial performance indicators in the statistical data section of the CAFR (refer to page III-3.18 of this Audit Program). In July 2012, the New Jersey Department of Education (NJDOE) released the Performance Framework. This framework sets the academic, organizational and fiscal standards by which all New Jersey charter schools will be evaluated, informing the Department of Education and individual school officials about school performance and sustainability.

The Financial Performance Framework section was designed as a starting point for the NJDOE to assess the financial health and viability of charter schools in New Jersey. The Framework, containing both near term and sustainability indicators, is a monitoring tool that provides the NJDOE with key data that summarizes a charter school’s current financial health, while taking into account the school’s financial trends over a period of three years. Near term indicators provide an understanding of a school’s financial picture in the upcoming school year, while sustainability indicators depict a school’s financial viability over time. In total, eight different measures provide a snapshot of a school’s near term financial health, historic trends, and future viability; this allows the NJDOE to proactively address areas of concern. The Performance Framework can be accessed at the NJDOE web site: <http://www.state.nj.us/education/chartsch/PerformanceFramework.pdf> .

Single Audit Section – This section includes independent auditor’s reports on compliance and internal control, schedules of expenditures for federal and state grants, notes to the

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schedules of expenditures of federal and state grants, schedule of findings and questioned costs, and a summary schedule of prior audit findings. This information is required by the *Uniform Administrative Requirements* and New Jersey OMB Circular Letter 15-08-OMB .

OUTLINE OF CAFR

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- A-1 Statement of Net Position
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B. Fund Financial Statements:

Governmental Funds:

- B-1 Balance Sheet
- B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances
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C. Budgetary Comparison Schedules:

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- E. Special Revenue Fund:
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- G. Proprietary Funds:
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- J-6 Assessed Value and Estimated Actual Value of Taxable Property
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- J-10 Ratios of Outstanding Debt by Type
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*Private citizens should be listed as Individual Taxpayer 1, Individual Taxpayer 2, etc.

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- K-5 Notes to the Schedules of Awards and Financial Assistance
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