New Jersey Legislature

Office of LEGISLATIVE SERVICES

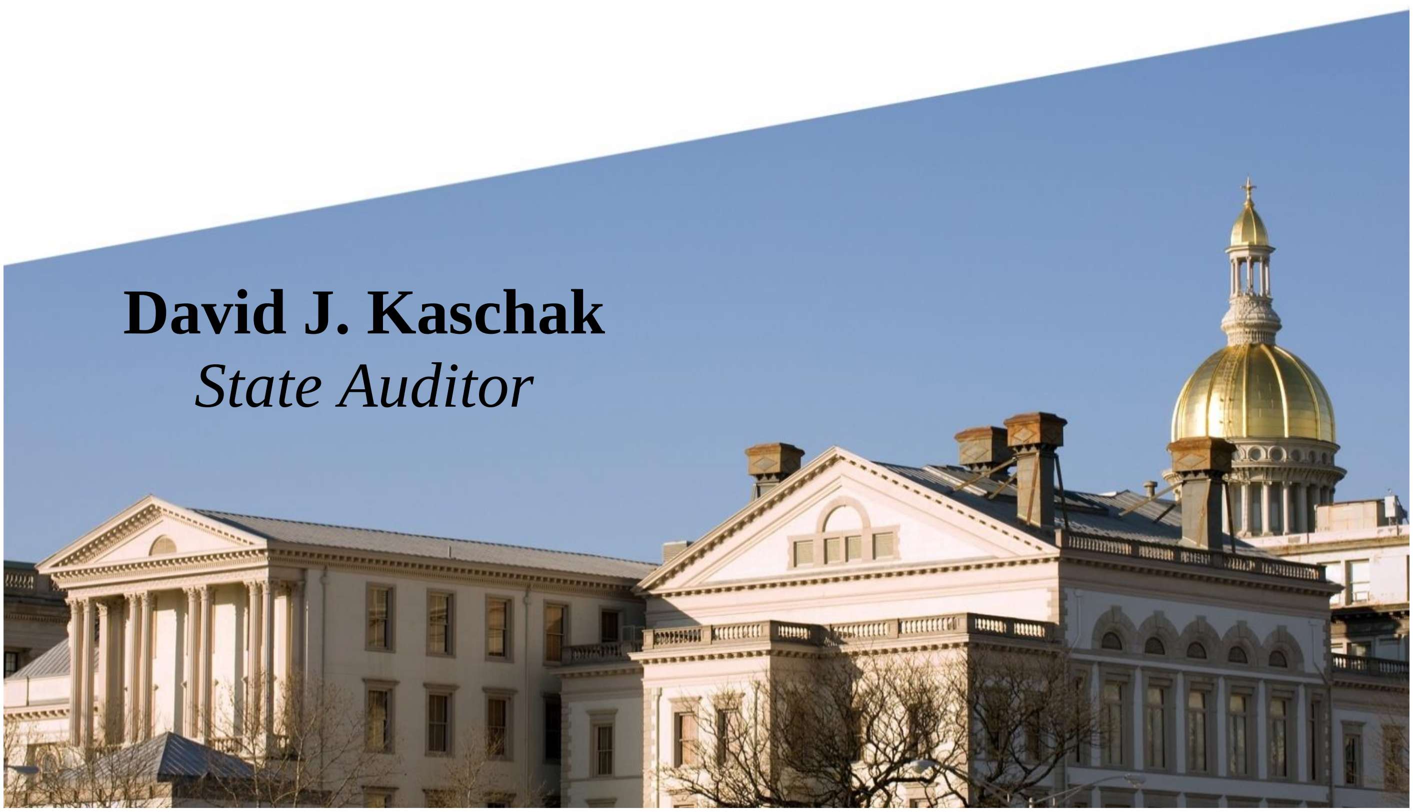
OFFICE OF THE STATE AUDITOR

Lyndhurst School District

July 1, 2016 to June 30, 2019

David J. Kaschak

State Auditor



NEW JERSEY STATE LEGISLATURE
★ *Office of* LEGISLATIVE SERVICES ★

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN ST. • P.O. BOX 067 • TRENTON, NJ 08625-0067
www.njleg.state.nj.us

OFFICE OF THE
STATE AUDITOR
609-847-3470
Fax 609-633-0834

David J. Kaschak
State Auditor

Brian M. Klingele
Assistant State Auditor

Thomas Troutman
Assistant State Auditor

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Nicholas P. Scutari
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Maureen McMahon
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Lyndhurst School District for the period of July 1, 2016 to June 30, 2019. If you would like a personal briefing, please call me at (609) 847-3470.

David J. Kaschak
State Auditor
August 18, 2022

Table of Contents

Scope

We have completed a forensic audit of the Lyndhurst School District (district) for the period July 1, 2016 to June 30, 2019. The district provides regular and special education services to approximately 2,500 pre-kindergarten through twelfth-grade students at eight public schools. Our audit included financial activities accounted for in the district's general fund. Annual general fund expenditures for fiscal years 2017 through 2019 averaged $46.2 million. Annual state aid to the district was $7.3 million, $8.2 million, and $9.1 million in fiscal years 2017, 2018, and 2019, respectively. In addition, to address the district's fiscal year 2018 year-end general fund budgetary unassigned fund balance deficit (deficit), the New Jersey Department of Education (DOE) provided the district with a state aid advance loan of $4.8 million in fiscal year 2019, which is to be repaid over 10 years. Since September 2018, the DOE has had an appointed state monitor oversee the financial activities of the district.

Objectives

The objective of our audit was to determine the factors that contributed to the fiscal year 2017 deficit of $1,115,000 and the fiscal year 2018 deficit of $4,471,000 as reported in the district's Comprehensive Annual Financial Reports (financial report).

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Title 18A:7A-57 of the New Jersey Statutes (School District Fiscal Accountability Act); Article VII, Section I, Paragraph 6 of the State Constitution; and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We studied legislation, the administrative code, and the policies of the DOE and the district. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and our review of financial transactions. We read the district's budgets and the Lyndhurst Board of Education (board) minutes, reviewed financial trends, and interviewed district personnel to obtain an understanding of the programs and the internal controls. In addition, we reviewed the financial reports of the district prepared by public school accountants.

Data Reliability

We assessed the reliability of the financial data from the district's accounting system, Systems 3000, by reconciling it to the district's financial reports. In addition, we reviewed information about the data and the system that produced them and interviewed district officials knowledgeable about the data. We also reviewed certain general information system controls, including logical access authorization and physical security. We determined that the data were sufficiently reliable for the purposes of this report.

Conclusions

We found the fiscal year 2017 deficit resulted from inadequate budgeting for the costs of health benefits, tuition, salaries, and transportation. The fiscal year 2018 deficit resulted from inadequate budgeting for the costs of health benefits and transferring funds from its general fund to cover non-budgeted deficiencies in the preschool and food service funds. In addition, the district had to restrict the general fund balance for the disallowed grant costs and assigned fund balance for year-end encumbrances, contributing to the fiscal year 2018 deficit.

General Fund Budgetary Deficit

The district failed to ensure spending within budgetary limits as required by N.J.A.C. 6A:23A-16.10.

N.J.A.C. 6A:23A-16.10(a)1 prohibits a district board of education from approving an encumbrance or expenditure (liability or payment) that, when added to the total of existing encumbrances and expenditures, exceeds the amount appropriated by a district's board of education in the applicable line item account established pursuant to the minimum chart of accounts. In fiscal years 2017 and 2018, the district reported deficits and multiple over-expended budget line accounts.

To assess the financial position of the district and to identify the causes of the fiscal years 2017 and 2018 deficits, we obtained the district's financial reports for fiscal years 2013 through 2019, as well as downloads of general fund financial transactions from the district's accounting system, Systems 3000, and performed various cash, revenue, and expenditure trend analyses. A review of these reports and system data for prior years indicated a negative change in fund balance for every fiscal year from 2013 through 2018. As a result, the general fund balance decreased from a $633,610 surplus to a deficit of $4,470,851, as shown in the following table:

General Fund	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	
Beginning Fund Balance	$970,804	$633,610	$492,573	$416,537	$97,745	($2,731,365)	($3,819,394)	
Revenues	$38,068,961	$38,404,912	$39,576,863	$41,513,605	$43,624,795	$45,310,245	$52,382,772	*
Expenditures	$38,121,155	$38,273,949	$39,340,399	$41,487,397	$44,517,427	$45,894,568	$46,699,564	
Other Financing Sources/(Uses)	($285,000)	($272,000)	($312,500)	($345,000)	($320,500)	($503,706)	($457,950)	
Net Change in Fund Balance	($337,194)	($141,037)	($76,036)	($318,792)	($1,213,132)	($1,088,029)	$5,225,258	
Ending Fund Balance	$633,610	$492,573	$416,537	$97,745	($1,115,387)	($3,819,394)	$1,405,864	
Legally Restricted-Disallowed Grant Cost						($301,224)	($301,224)	**
Year-End Encumbrances						($350,233)	($455,425)	
Unassigned Fund Balance (Deficit)	$633,610	$492,573	$416,537	$97,745	($1,115,387)	($4,470,851)	$649,215	

*FY 2019 includes advance state aid of $4.8 million
**Fund balance restricted for unrecorded liabilities

Fiscal Year 2017 Deficit

The district reported a fiscal year 2017 general fund budgetary fund balance deficit of $1,115,000 and 39 over-expended budget line accounts, such as health benefits, tuition, salaries, and transportation, in its audited financial report.

The fiscal year 2017 ending general fund balance required a $1,616,000 adjustment for the unrecorded costs related to salaries, health benefits, transportation, tuition, and other services. This adjustment was made by public accountants hired by the district to audit the fiscal year 2018 financial statements. The adjustment is summarized in the following table:

Unrecorded Liabilities	**Amount**
Retroactive salary increases	$ 479,000
Attendance bonuses	46,000
Speech, OT, PT and related services	38,000
Health benefits	907,000
Contracted transportation services	123,000
Tuition	23,000
Total Adjustment	**$ 1,616,000**

Health Benefits Costs

The district budgeted $4,282,000 in fiscal year 2017 for health benefits expenses, 1.6 percent less than the actual health benefits expenses in fiscal year 2016. Fiscal year 2017 health benefits costs increased 21 percent primarily because of a $1,150,000 increase in health benefits claims, less employees' contributions. The district has been self-insured for health benefits since February 2015, making it responsible for claims and administrative costs associated with running the program. This contributes to cost volatility driven by participants' usage. After the $907,000 adjustment, as shown in the previous table, the actual fiscal year 2017 end-of-year deficit in the health benefits account was $1,065,000.

Tuition Costs

The district's budgeted fiscal year 2017 tuition costs for students attending out-of-district schools was $2,638,000, an increase of $383,000, or 17 percent compared to its reported fiscal year 2016 tuition costs. The budgeted increase was due to an anticipated increase in tuition rates. Reported fiscal year 2017 tuition expenditures were $1 million more than the reported tuition costs in fiscal year 2016. The fiscal year 2017 expenditures included $650,000 in payments associated with unrecorded fiscal year 2016 tuition. After the $23,000 adjustment, as shown in the previous table, the end-of-year deficit in the tuition accounts was $853,000.

Salary Costs

The district budgeted $23,492,000 in fiscal year 2017 for salary costs, a 3.5 percent increase over actual fiscal year 2016 salary expenses. After adjustments were made for fiscal year 2017 retroactive salary increases totaling $479,000 and fiscal year 2017 attendance bonuses totaling $46,000 paid in fiscal year 2018, as shown in the previous table, actual fiscal year 2017 salary costs amounted to $23,882,000, a 5.2 percent increase. At the time of the budget preparation, the district was in the process of negotiating the employee contract for fiscal years 2017 through 2019, which was ultimately approved in August 2017. Retroactive salary increases for fiscal year 2017 were paid in December 2017 using fiscal year 2018 appropriations. The district had budgeted $524,000 for salary increases in fiscal year 2017; however, the funds were exhausted at the end of the fiscal year for base salaries and no encumbrances were made for the anticipated salary increases. The expenses for retroactive salary increases and attendance bonuses were later reclassified to the proper fiscal year.

Transportation Costs

The district budgeted $753,000 for contracted transportation costs in fiscal year 2017, a 40 percent increase over the transportation costs reported in its fiscal year 2016 financial report. After the $123,000 unrecorded liability was adjusted, as shown in the previous table, fiscal year 2017 transportation costs were $1,019,000, an increase of $481,000 (89 percent) over fiscal year 2016. However, this included $236,000 in payments for transportation services rendered to the district during fiscal year 2016 and not included in the fiscal year 2017 budget. The end-of-year deficit in the contractual transportation accounts was $383,000.

Impact on Fiscal Year 2016 General Fund Presentation

As previously described in the *Tuition Costs* and the *Transportation Costs* sections of this report, the district paid $650,000 for fiscal year 2016 tuition expenses and $236,000 during fiscal year 2017 for fiscal year 2016 transportation expenses. Had these costs been properly reported in the 2016 financial report, the district would have recognized a $789,000 deficit a year earlier in fiscal year 2016.

Fiscal Year 2018 Deficit

The district ended fiscal year 2018 with a general fund unassigned budgetary fund balance deficit of $4,471,000 and 25 over-expended budget line accounts. The most significant deficit was reported in the health benefits account at $1,073,000, which was the result of the district budgeting fiscal year 2018 health benefits costs based on the underreported fiscal year 2017 expenses. Other factors that contributed to the fiscal year 2018 general fund unassigned budgetary fund balance deficit included the non-budgeted transfer of $164,000 to the preschool program fund and under-budgeted additional transfer of $88,000 to the food service fund to cover deficits in both funds (it has been the district's practice to supplement its food service program with the general fund appropriations).

In addition, the district over-budgeted revenues reported as "Tuition from Individuals" by $192,000. The majority of the over-budgeted revenue was from preschool tuition that should have been included in the enterprise (preschool) fund budget, not the general fund budget. The district also had to restrict the general fund balance by $301,000 for fiscal year 2015 grant costs deemed disallowable following a New Jersey Department of Education audit. The district subsequently filed an appeal, but it had not received a response to the appeal as of the end of fiscal year 2018.

In addition, by the end of fiscal year 2017, the district had accumulated $1,557,000 in unprocessed invoices for payroll and goods and services procured during fiscal year 2017, including $830,000 for unpaid fiscal year 2017 tuition expenses and $239,000 for transportation services rendered between February 2017 and June 2017. These expenditures were properly accounted for in the fiscal year 2017 financial report through end-of-year audit adjustments. However, the district also recorded these as fiscal year 2018 expenditures with $1,334,000 posted as Health Benefits expenses. Had these transactions not been properly reclassified, the individual appropriation accounts may have been incorrect and the fiscal year 2018 deficit would have appeared even greater.

Recommendation

We recommend the district record expenditures in their proper fiscal year, prepare fiscally sound budgets, and adhere to the requirements of the N.J.A.C. 6A:23A-16.10.

LERCH, VINCI & BLISS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
JEFFREY C. BLISS, CPA, RMA, PSA
PAUL J. LERCH, CPA, RMA, PSA
JULIUS B. CONSONI, CPA, PSA
ANDREW D. PARENTE, CPA, RMA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA
ROBERT W. HAAG, CPA, RMA, PSA
DEBRA GOLLE, CPA
MARK SACO, CPA
ROBERT LERCH, CPA
CHRISTOPHER VINCI, CPA, PSA
CHRISTINA CUIFFO, CPA

August 11, 2022

Thomas Troutman
Assistant State Auditor
Office of the State Auditor
125 South Warren Street
PO Box 067
Trenton, NJ 08625-0067

Re: Lyndhurst School District

Dear Mr. Troutman:

The Lyndhurst School District requested us to provide a response to the confidential draft report dated August 10, 2022 issued by the Office of the State Auditor. The forensic audit conducted by your office of the Lyndhurst School District was for the period July 1, 2016 to June 30, 2019. Our response was reviewed and approved by the Administration of the Lyndhurst School District. We provide the following response to the issues and circumstances noted in your report and the corrective action that has been taken to address these areas.

Since fiscal year 2018, the District has made significant improvements in it internal control procedures and budgeting practices to ensure the District is recording expenditures in their proper fiscal year, preparing fiscally sound budgets and adhering to the requirements of N.J.A.C. 6A:23A-16.10 – Budgetary Controls and Overexpenditure of Funds. These improvements are clearly evidenced by the results of the independent audits conducted for fiscal years 2019, 2020 and 2021.

Recording of Expenditures in Their Proper Fiscal Year

Effective in fiscal year 2019 the District revised its existing procedures and implemented new procedures to ensure all commitments (accounts payable and encumbrances) made by year end were recorded in the District financial records. This corrective action was effective as evidenced by the District audit reports for fiscal years 2019, 2020 and 2021 as no findings or recommendations were noted regarding unrecorded liabilities or encumbrances at year end.

17-17 ROUTE 208 • FAIR LAWN, NJ 07410 • TELEPHONE (201) 791-7100 • FACSIMILE (201) 791-3035
WWW.LVBCPA.COM

Preparing Fiscally Sound Budgets

With the appointment and oversight of a State Fiscal Monitor the District has developed budgets which provided realistic anticipated revenue amounts and budget appropriations sufficient to cover budgetary operating expenditures for the fiscal year. The corrective action taken to prepare fiscally sound budgets has been effective as indicated by a review of the fiscal years' 2019, 2020 and 2021 audit reports. In all three of these fiscal years revenues realized have exceeded anticipated amounts thereby generating surplus to fund balance at year. In fiscal years 2020 and 2021 budgeted appropriations were greater than actual expenditures and encumbrances with the unencumbered budget appropriation balances generating surplus to fund balance at year end. In addition, the budgets were prepared to provide sufficient appropriations for the District to fully fund the accrued liability for self-insured health claims (incurred but not reported claims) as of June 30, 2019 to present.

Adherence to the Requirements of N.J.A.C. 6A:23A-16.10 – Budgetary Controls and Overexpenditure of Funds

With the assistance of the State Fiscal Monitor the District has implemented budgetary controls to ensure overexpenditure of funds and fund deficits do not occur in the future. As noted in the fiscal year 2018 audit report there were twenty-five (25) budget line accounts overexpended, a shortfall in budget revenues and a year-end unassigned fund balance deficit of approximately $4.5 million. A review of the three subsequent year audit reports reveals corrective action taken by the District has been effective to ensure compliance with N.J.A.C. 6A:2AA-16.10. As previously mentioned realized revenues have exceeded budget amounts and appropriations have been sufficient to fund budgetary operating expenditures. In addition, the District has implemented the practice of performing mid-year forecasts of budget revenues and expenditures and projected year end fund balance. This practice allows the District to plan for and address potential areas of concern before year end.

Although there was one budget line overexpenditure in FY 2019 and three in FY 2021 all were the results of audit adjustments made by the auditors and not by action of the District. The implementation of budgetary controls has allowed the District to generate surpluses at year end with positive unassigned fund balances and the ability to establish capital and required maintenance reserves in the General Fund while meeting its operating obligations each fiscal year.

Summary

The corrective action implemented by the District since 2018 has been effective and has resulted in the District's ability to record its expenditures in their proper fiscal year, prepare fiscally sound budgets and ensure compliance with N.J.A.C. 6A:23A-16.10.

Summary (continued)

These results can be clearly illustrated in a review of the District's recapitulation of budgetary fund balances for the fiscal years ended June 30, 2019, 2020 and 2021 as follows:

Recapitulation of Fund Balances	2019	2020	2021
Restricted Fund Balance			
Legally Restricted – Disallowed Grant Costs	$301,224	$301,224	$301,224
Capital Reserve		270,021	1,191,515
Maintenance Reserve		270,000	670,000
Committed/Assigned Fund Balance			
Year End Encumbrances	455,425	565,286	1,475,696
FFCRA/SEMI			4,526
Designated for Subsequent Year's Expenditures		534,746	4,963
Unassigned Fund Balance	649,219	720,176	1,015,480
Fund Balance – Budgetary Basis	$1,405,868	$2,661,453	$4,663,404

As noted above unassigned budgetary fund balance has increased from $649,000 at June 30, 2019 to $1,015,000 at June 30, 2021. In addition, at the end of fiscal year 2020 the District was able to establish a capital reserve for $270,000 and a maintenance reserve for $270,000. These reserves were subsequently increased at the end of fiscal year 2021 to $1,192,000 for capital reserve and $670,000 for maintenance reserve. The improvement in the District's fund balance position was significant enough for Standard and Poors to upgrade the District's credit rating from A minus (A-) stable in 2018 to A stable in FY 2022.

The District appreciates the opportunity to provide you with this response on the corrective action it has taken to address these areas and the results of implementing these corrective measures on the District's operations and financial position.

Respectfully submitted,
LERCH, VINCI & BLISS, LLP

Jeffrey C. Bliss
Certified Public Accountant
Public School Accountant

CC: Joseph DeCorso, Superintendent of Schools
Mark Hayes, Interim Business Administrator
Thomas Egan, State Monitor