

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
AUDITOR'S MANAGEMENT REPORT ON  
ADMINISTRATIVE FINDINGS -  
FINANCIAL, COMPLIANCE AND PERFORMANCE  
JUNE 30, 2016**

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
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- FINANCIAL, COMPLIANCE AND PERFORMANCE**

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Honorable President and  
Members of the Board of Directors  
Essex Regional Educational Services Commission  
Fairfield, New Jersey

We have audited in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Essex Regional Educational Services Commission as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated November 28, 2016.

As part of our audit, we performed procedures required by the Office of School Finance, Department of Education, State of New Jersey and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended solely for the information and use of management, the Board of Directors, others within the Commission and the New Jersey State Department of Education. However, this report is a matter of public record and its distribution is not limited.

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

  
Gary J. Vinci  
Public School Accountant  
PSA Number CS00829

Fair Lawn, New Jersey  
November 28, 2016

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Scope of Audit**

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

**Administrative Practices and Procedures**

**Insurance**

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

**Official Bonds**

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Dr. Jacqueline A. Young	Superintendent/Board Secretary	\$400,000
Wei-Jiun Kao	School Business Administrator (July 1, 2015-December 23, 2015)	400,000

There is a blanket dishonesty bond with School Alliance Insurance Group covering all other employees with multiple coverage of \$500,000.

**Finding** – The School Business Administrator was not covered by a surety bond for the period February 1, 2016 to June 30, 2016. Coverage was obtained effective July 1, 2016, therefore an audit recommendation is not warranted.

**Financial Planning, Accounting and Reporting**

**Examination of Claims**

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

**Payroll Account**

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

All payrolls tested were approved by the Superintendent/Board Secretary and were certified by the President of the Commission.

**Finding** – The prior School Business Administrator and Interim School Business Administrator did not certify the Commission's payrolls for the pay periods between July 1, 2015 and January 31, 2016. The payrolls subsequent to February 1, 2016 were certified by the School Business Administrator, thus an audit recommendation is not warranted.

Salary withholdings were promptly remitted to the proper agencies, including health benefit withholdings due to the General Fund. The School Business Administrator completed and filed the required Certification of Compliance with Federal and State Law respective to the reporting of compensation for certain employees.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Financial Planning, Accounting and Reporting (Continued)**

**Reserve for Encumbrances and Accounts Payable**

The Commission does not have any outstanding issued purchase orders as of June 30, 2016. Unpaid purchase orders included in the balance of accounts payable were reviewed for propriety and to determine that goods were received and services were rendered, as of June 30.

**Finding (CAFR 2016-001)** – The Commission’s year end accounts payable was overstated by \$2,506,630, \$86,492 and \$27,058 in the General, Special Revenue and Food Service Enterprise Funds, respectively. An audit adjustment has been made to reduce the outstanding liabilities.

**Recommendation** – Internal control procedures be reviewed and enhanced to ensure that all liabilities are properly reported in the Commission’s year end financial records.

**Classification of Expenditures**

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23-2.2(g) 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. As a result of the procedures performed, no transaction errors were noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

**Finding** – Administrative salaries and other departmental costs are charged to several Commission programs. These indirect costs and administrative costs were not allocated to the respective programs in the Commission’s budgetary accounting system. An audit adjustment has been made to reclassify these costs to the various Special Revenue Fund programs.

**Recommendation** – The Commission review its written cost allocation plan for the allocation of central and general administrative costs and take appropriate action to ensure that these costs are recorded in the budgetary accounting system on a monthly or quarterly basis.

**Business Administrator's Records**

The financial records, books of account and minutes maintained by the School Business Administrator were in good condition.

The prescribed contractual order system was followed.

Bids received were summarized in the minutes (N.J.S.A. 18A:18A-21).

Acknowledgment of the Commission’s receipt of the monthly financial report was included in the minutes.

**Finding (CAFR 2016-002)** – The General Fund additional appropriations of revenue were not always approved by the Board of Directors.

**Recommendation** – Additional appropriations of revenue be authorized by Board Resolution.

**Finding** – Amounts billed for Special Revenue Fund services (i.e., nonpublic services, Title I services, IDEA services) were not reconciled with the Special Revenue Fund budgetary expenditures.

**Recommendation** – The Commission reconcile its Special Revenue Fund service fee billings with related expenditures in a timely manner.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Financial Planning, Accounting and Reporting (Continued)**

**Business Administrator's Records (Continued)**

**Finding (CAFR 2016-002)** – The Commission's June 30, 2016 Board Secretary's Report included several budgetary line item overexpenditures.

**Recommendation** – Internal control procedures be reviewed and enhanced to ensure that budget transfers are made prior to the overexpenditure of budgetary line items.

**Finding (CAFR 2016-001)** – The Commission's cash balance in its June 30, 2016 financial reports reflected a cash overdraft of \$3,390,851. The overdraft was a result of payments made subsequent to June 30, 2016 but recorded in the accounting system on June 30, 2016. An audit adjustment was made to record the subsequent payments as accounts payable.

**Recommendation** – Internal control procedures be reviewed and enhanced to ensure that all liabilities are properly reported in the Commission's year end financial records.

**Other Special Federal and/or State Projects**

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

Our audit 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.

**Finding (CAFR 2016-003)** – The Commission adjusted the salaries charged to the federal grants but did not record the adjustments in the subsidiary accounting records.

**Recommendation** – Grant financial reports be reconciled to the Commission's budgetary accounting records.

**Finding (CAFR 2016-003)** – Time and activity reports were not maintained for employees charged to the Title I grant. In addition, Title I personnel and their respective salaries were not approved by a Board resolution.

**Recommendation** – Time and activity reports be completed for all employees charged to the Title I grant. In addition, all employees charged to a federal grant be included by name and pro-rata salary on a resolution approved by the Board.

**T.P.A.F. Reimbursements**

Our audit procedures included a test of the semi-monthly reimbursement forms filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Financial Planning, Accounting and Reporting (Continued)**

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

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

**Finding (CAFR 2016-001)** – The TPAF FICA reimbursement to the State for Federal salary expenditures was not accrued in the Commission’s financial records as of June 30, 2016. The Commission calculated the year end liability subsequent to the year end close out.

**Recommendation** – Internal control procedures be reviewed and enhanced to ensure that all liabilities are properly reported in the Commission’s year end financial records.

**School Purchasing Programs**

**Contracts and Agreements Requiring Advertisement for Bids**

The bid thresholds in accordance with N.J.S.A. 18A:18A-2 and 18A:18A-3(a) are \$40,000 (with a Qualified Purchasing Agent) and \$29,000 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18A:39-3 is currently \$18,800. The District’s Business Administrator for the period July 1, 2015 to December 23, 2015 was a Qualified Purchasing Agent. Subsequent to December 23, 2015, the District did not have a Qualified Purchasing Agent.

The Commission has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Commission Attorney’s opinion should be sought before a commitment is made.

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

The results of our examination indicated no instances where payments, contracts, or agreements were made" for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 18A:18A-4.

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

The system of records did not provide for an accumulation of purchases for which the Commission 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. Our examination did reveal, however, that purchases were made through the use of State and cooperative purchasing contracts.

**Finding** – Documentation supporting state contracts and cooperative purchasing contracts is not always attached to the purchase order, retained for audit or included in the Commission’s official minutes.

**Recommendation** – Documentation supporting a state contract or cooperative purchase contracts be attached to the respective purchase orders and furthermore, the Board acknowledge the use of such contracts.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**School Food Service**

The School Food Service Program was not selected as a major program nor were the program expenses in excess of \$100,000 for the school year.

The financial transactions and statistical records of the school food services were maintained in satisfactory condition.

Cash receipts and bank records were reviewed for timely deposit.

Expenditures were recorded as food/cost of sales. The Commission purchases prepared meals from its food service vendor. Vendor invoices were reviewed and verified.

**Finding** – The November, December and January reimbursement claim forms were not filed in a timely manner, resulting in an underclaim of \$16,838.

**Recommendation** – The Commission implement procedures to ensure that the monthly reimbursement requests are submitted in a timely manner.

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service.

Exhibits reflecting Child Nutrition Program operations are included in the Commission's CAFR Exhibits B-4, B-5 and B-6.

**Student Body Activities**

The Board has a policy, which has established regulations of student activity funds.

**Finding** – Cash receipt and disbursement ledgers are not maintained for the student activity accounts.

**Recommendation** – The Commission implement and maintain a cash receipt and disbursement ledger for its student activity accounts.

**Pupil Transportation**

Our procedures included a review of transportation related contracts and purchases. Based on our review, the Commission complied with proper bidding procedures and award of contracts.

**Finding** – Our audit noted that certain transportation routes tested did not have documentation that the County Superintendent approval was obtained.

**Recommendation** – The Commission obtain approval of all transportation contracts and renewals from the County Superintendent, and retain such documentation for audit.

**Suggestions to Management**

- The Commission review its billing and collection procedures to ensure that receivables are collected in a timely manner.
- Outstanding account balances be reviewed for validity and any uncollectible receivables be written off.

**Follow-up Prior Year Findings**

In accordance with government auditing standards, our procedures included a review of all prior year recommendations.



**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
FOOD SERVICE ENTERPRISE FUND  
NUMBER OF MEALS SERVED AND (OVER)/UNDERCLAIMED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**SCHEDULE IS NOT APPLICABLE**

**SCHEDULE OF NET CASH RESOURCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**SCHEDULE IS NOT APPLICABLE**

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

RECOMMENDATIONS

I. Administrative Practices and Procedures

There are none.

II. Financial Planning, Accounting and Reporting

It is recommended that:

1. Internal control procedures be reviewed and enhanced to ensure that all liabilities are properly reported in the Commission's year end financial records.
- \* 2. The Commission review its written cost allocation plan for the allocation of central and general administrative costs and take appropriate action to ensure that these costs are recorded in the budgetary accounting system on a monthly or quarterly basis.
3. Additional appropriations of revenue be authorized by Board resolution.
4. The Commission reconcile its Special Revenue Fund service fee billings with related expenditures in a timely manner.
5. Internal control procedures be reviewed and enhanced to ensure that budget transfers are made prior to the overexpenditure of budgetary line items.
- \* 6. Grant financial reports be reconciled to the Commission's budgetary accounting records.
7. Time and activity reports be completed for all employees charged to the Title I grant. In addition, all employees charged to a federal grant be included by name and pro-rata salary on a resolution approved by the Board.

III. School Purchasing Program

It is recommended that documentation supporting a state contract or cooperative purchase contracts be attached to the respective purchase orders and furthermore, the Board acknowledge the use of such contracts.

IV. Food Service Fund

It is recommended that the Commission implement procedures to ensure that the monthly reimbursement requests are submitted in a timely manner.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION  
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

RECOMMENDATIONS (Continued)

V. Student Body Activities

It is recommended that the Commission implement and maintain a cash receipt and disbursement ledger for its student activity accounts.

VI. Pupil Transportation

It is recommended that the Commission obtain approval of all transportation contracts and renewals from the County Superintendent, and retain such documentation for audit.

VII. Status of Prior Years' Audit Findings/Recommendations

A review was performed on the prior year's recommendation and corrective action was taken on all except those denoted with an asterisk (\*).

ACKNOWLEDGEMENT

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

Respectfully submitted,



Gary Vinci  
Public School Accountant  
PSA Number CS00829