

*Auditor's Management Report*

*for the*

*Somerset County Educational  
Services Commission*

*in the*

*County of Somerset  
New Jersey*

*for the*

*Fiscal Year Ended  
June 30, 2017*



**AUDITOR'S MANAGEMENT REPORT OF ADMINISTRATIVE  
FINDINGS FINANCIAL AND COMPLIANCE**

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**Tax ID Number      22-2213688**





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## INDEPENDENT AUDITOR'S REPORT

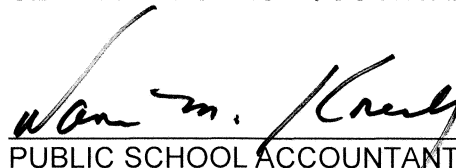
Honorable President and Members  
of the Board of Directors  
Somerset County Educational Services Commission  
County of Somerset, New Jersey

We have audited, in accordance with U.S. generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Somerset County Educational Services Commission in the County of Somerset for the year ended June 30, 2017, and have issued our report dated December 1, 2017.

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

This report is intended solely for the information of the Somerset County Educational Services Commission in the County of Somerset, New Jersey, the New Jersey Department of Education and federal and state audit awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
CERTIFIED PUBLIC ACCOUNTANTS

  
PUBLIC SCHOOL ACCOUNTANT NO. 962

December 1, 2017

**Independent Auditor's Management Report of Administrative Findings – Financial and Compliance**

**SCOPE OF AUDIT**

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

**ADMINISTRATIVE PRACTICES AND PROCEDURES**

**Insurance**

Insurance coverage was carried in the amounts as detailed on the Insurance Schedule (Exhibit J-20) contained in the District's Comprehensive Annual Financial Report (CAFR).

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

<u>NAME</u>	<u>POSITION</u>	<u>AMOUNT OF BONDS</u>
Jeff Siipola	Business Administrator/Board Secretary	\$300,000.00

There is a Public Employee's Faithful Performance Blanket Position Bond with the New Jersey School Insurance Group (NJSIG) covering all other employees with multiple coverage of \$500,000.00.

Adequacy of insurance coverage is the responsibility of the Commission.

**Tuition and Local Educational Agency Charges**

The Commission bills for tuition and local educational agency charges on an ongoing basis based on attendance at contractual rates agreed to by the various local educational agencies. The computer system provides an accounts receivable schedule of uncollected balances.

**FINANCIAL PLANNING, ACCOUNTING AND REPORTING**

**Examination of Claims**

Our audit of claims paid during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)**

**Payroll Account**

The net salaries of all employees of the Commission were deposited in the Net 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 Superintendent and were certified by the President of the Board, the Board Secretary/Business Administrator and the Chief School Administrator.

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

**Position Control Roster**

The Position Control Roster was reviewed and compared to payroll records, employee benefit records and charges made to the general ledger to ensure proper and consistent financial reporting and that employee benefits are only offered to current employees.

**Reserve for Encumbrances and Accounts Payable**

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable without exception.

**Classification of Expenditures**

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 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 specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23A-8.3. As a result of the procedures performed, a transaction error rate of 2% overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)**

**Classification of Expenditures (Continued)**

**Finding 2017-01:**

During our test of transactions it was noted that the Commission misclassified and misbudgeted the principal portion of a debt service payment as Undistributed Expenditures – Central Services – Interest on Lease Purchase Agreements. The expenditure and related appropriation was reclassified to Capital Outlay – Lease Purchase Agreements – Principal.

**Recommendation:**

The Commission should reference The Uniform Minimum Chart of Accounts for New Jersey Public School for the proper classifications required to be in compliance with N.J.A.C. 6A:23A-16.2(f).

**Board Secretary's Records**

The financial records, books of account and minutes of the Board Secretary were maintained in satisfactory condition and the contractual order system was fully implemented.

**Treasurer's Records**

While the Commission does not have a Treasurer, they have hired the accounting firm of Klatzkin and Company to perform many of the Treasurer's functions. These records were in agreement with the records maintained by the Board Secretary/School Business Administrator.

**Other Special Federal and State Projects**

The Commission contracts with other school districts and bills those districts administering the following programs:

I.D.E.A. Part B  
Non-Public Textbooks  
Non-Public Nursing Services  
Non-Public Technology  
Non-Public Security Aid  
Non-Public Chapter 192/193

Our audit of the above programs, on a test basis, indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.



**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)**

**Other Special Federal and State Projects (Continued)**

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.

**T.P.A.F. Reimbursement**

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

Our audit procedures also included a test of the reimbursement of the employer share of pensions, group life insurance, FICA and other benefits of the Teacher's Pension and Annuity Fund for TPAF members carrying out and paid from federally funded programs in accordance with N.J.S.A. 18A:66-90. The Commission filled out the required form and submitted it for audit. Our test included verification of eligible employees to be included, and, if applicable, a recalculation to verify proper amounts was used. No exceptions were noted.

**SCHOOL PURCHASING PROGRAMS**

**Contracts and Agreements Requiring Advertisement for Bids**

**N.J.S.A. 18A:18A-3 States:**

"a. When the cost or price of any contract awarded by the purchasing agent in the aggregate, does not exceed in a contract year the total sum of \$29,000.00, the contract may be awarded by a purchasing agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefore, except that the board of education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. (pending before the Legislature as section 15 of this bill) of section 9 of P.L. 1971 c. 198 (C.40A:11-9) the board of education may establish that the bid threshold may be up to \$40,000.00. Such authorization may be granted or each contract for by a general delegation of the power to negotiate and award such contracts pursuant to this section.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**SCHOOL PURCHASING PROGRAMS (CONTINUED)**

**Contracts and Agreements Requiring Advertisement for Bids (Continued)**

b. Commencing in the fifth year after the year in which P.L. 1999 c. 440 takes effect, and every five years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount and the higher threshold amount which the board of education is permitted to establish as set forth in subsection a. of this section or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in N.J.S.A. 18A:18A-2 and shall round the adjustment to the nearest \$1,000.00. The Governor shall notify all local school districts of the adjustment no later than June 1 of every fifth year. The adjustment shall become effective on July 1 of every year in which it is made. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection a. of N.J.S.A. 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months."

N.J.S.A. 18A:18A-4 states, "Every contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the board of education to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.

The board of education may, by resolution approve by the majority of the board of education and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of education finds that it has had negative prior experience with the bidder."

Effective July 1, 2015, the bid thresholds in accordance with N.J.S.A. 18A:18A-3(a) and (c) is \$40,000.00 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18:39-3 is currently \$18,800.00.

The Commission appointed Jeff Siipola as the Qualified Purchasing Agent and has set the bid threshold at \$40,000.00.

The Board of Education 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 solicitor'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.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**SCHOOL PURCHASING PROGRAMS (CONTINUED)**

**Contracts and Agreements Requiring Advertisement for Bids (Continued)**

The results of our examination indicated that no individual 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 provisions 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 School Board 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. My examination did reveal however, that the commission did purchase goods through the use of state contracts.

**ENTERPRISE FUNDS**

**School Food Service Funds**

The financial transactions and statistical records of the School Food Services were maintained in satisfactory condition. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis. No exceptions were noted.

Cash receipts and bank records were review for timely deposit without exception.

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. Reimbursement vouchers were properly computed and timely filed. Meals claimed agreed with the meal count records tested. No exceptions were noted.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served did not exceed the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced priced meal policy is uniformly administered throughout the School system. The required verification procedures for free and reduced price applications were completed and available for review. No exceptions were noted.

The food service contract is with the Bridgewater-Raritan School District. Vendor invoices were reviewed and costs verified.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**ENTERPRISE FUNDS**

**School Food Service Funds (Continued)**

The cash disbursements records reflected expenditures for program related goods and services. The Commission is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1. Cash receipts and bank records were reviewed for timely deposit. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources exceeded three months average expenditures.

Exhibits reflecting Child Nutrition Program operations are included in Section G of the CAFR.

**Finding 2017-02:**

As a result of an administrative review performed covering the FY2015 school year the Department of Agriculture identified overpayments in National School Lunch Program subsidies to the Commission totaling \$13,285.72. This overpayment was reimbursed to the state through shortages of aid in the 2016-2017 school year. In addition, management has informed us due to the ongoing audit the Commission was unable to certify reimbursement submissions for the periods of September through November 2015 and January 2016 resulting in a loss of federal and state subsidies of \$30,125.19.

**Recommendation:**

The Commission should comply with the corrective action plan which was submitted to and approved by the Department of Agriculture.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**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. The bid specifications for the purchase of buses were in compliance with applicable statutes. The following exceptions were noted in our review of transportation related purchases of goods and services.

**Finding 2017-03:**

Our testing of transportation expenditures revealed overpayments to vendors for transportation routes. Discrepancies were noted between approved contract route rates and the rates that were being used in the Commissions calculations through their transportation software package.

**Recommendation:**

That control procedures be implemented to provide for a verification between the approved contract rates and the rates being used to calculate vendor payments in the Commission's transportation software package.

**TESTING FOR LEAD OF ALL DRINKING WATER IN EDUCATIONAL FACILITIES**

The Commission adhered to the requirements of N.J.A.C. 26-1.2 and 12.4 related to the testing for lead of all drinking water in educational facilities.

**FOLLOW-UP ON PRIOR YEAR'S FINDINGS**

Not Applicable

**Independent Auditor's Management Report of Administrative Findings – Financial and Compliance**

**RECOMMENDATIONS**

**Administrative Practices and Procedures**

None

**Financial Planning, Accounting and Reporting**

**Classification of Expenditures**

The Commission should reference The Uniform Minimum Chart of Accounts for New Jersey Public School for the proper classifications required to be in compliance with N.J.A.C. 6A:23A-16.2(f).

**School Purchasing Program**

None

**School Food Services**

The Commission should comply with the corrective action plan which was submitted to and approved by the Department of Agriculture.

**Student Body Activities**

Not Applicable

**Application for State School Aid**

Not Applicable

**Pupil Transportation**

That control procedures be implemented to provide for a verification between the approved contract rates and the rates being used to calculate vendor payments in the Commission's transportation software package.

**Capital Assets and Facilities**

Not Applicable

