

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS -
FINANCIAL, COMPLIANCE AND PERFORMANCE
JUNE 30, 2018**

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
TABLE OF CONTENTS**

**AUDITOR'S MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS
- FINANCIAL, COMPLIANCE AND PERFORMANCE**

	<u>Page No.</u>
Report of Independent Auditors	1
Scope of Audit	2
Administrative Practices and Procedures	2
Financial Planning, Accounting and Reporting	2-5
School Purchasing Programs	5
School Food Service	6
Cooperative Purchasing Enterprise Fund	6
Student Body Activities	6
Pupil Transportation	6
Miscellaneous	7
Facilities and Capital Assets	7
Suggestions to Management	7
Follow-up Prior Year Findings	7
Number of Meals Served and (Over)/Underclaimed – Not Applicable	8
Schedule of Net Cash Resources – Not Applicable	8
Recommendations	9-11
Acknowledgement	11



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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

ELIZABETH A. SHICK, CPA, RMA, PSA
ROBERT W. HAAG, CPA, PSA
DEBORAH K. LERCH, CPA, PSA
RALPH M. PICONE, CPA, RMA, PSA
DEBRA GOLLE, CPA
MARK SACO, CPA
SHERYL M. LEIDIG, CPA, PSA
ROBERT LERCH, CPA
CHRIS SOHN, CPA

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, 2018, and have issued our report thereon dated February 4, 2019.

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
February 4, 2019

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Scope of Audit

The audit covered the financial transactions of the Board Secretary/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

Finding – Our audit revealed that First Hope Bank was not designated as an official depository by the Commission.

Recommendation – It is recommended that all banking and financial institutions utilized by the Commission be approved by the Board as official depositories.

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>
John Ferraro	School Business Administrator	\$400,000

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

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 and were certified by the Board Secretary and the President of the Commission.

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.

The Commission maintains a personnel tracking and accounting (Position Control) system.

Finding – The Commission last performed a payroll verification on May 15, 2015. The New Jersey Administrative Code requires that a verification be completed once every three years. We also noted that a payroll verification has not been completed subsequent to June 30, 2018.

Recommendation – The Commission complete a payroll verification in accordance with the New Jersey Administrative Code.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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, 2018. 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.

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.

Business Administrator's Records

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 – The cash balance reported in the Commission's year end financial reports was not in agreement with the reconciled bank balances. The reconciled bank balances were \$23,788 greater than the Commission's records. An audit adjustment was made to record this difference.

Recommendation – It is recommended that the Commission's monthly financial reports be in agreement with the reconciled bank balances.

Finding (CAFR 2018-001) – 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 program expenditures and adjust its budgetary accounting records accordingly.

Finding – There remains uncollected prior year accounts receivable balances. In addition, there are several negative receivable balances included in the year end receivable reports. On November 15, 2018, the Board deemed certain accounts receivable as uncollectible and approved a write-off of \$1,792,719 of outstanding receivables.

Recommendation – The Commission's accounts receivable balances be reviewed, collected or adjusted in a timely manner.

Finding – Our audit revealed differences between the accounts receivable balances reported in the Commission's general ledger and the balances reported in the detailed billing summaries by service.

Recommendation – General ledger accounts receivable balances be reconciled with the detailed billing summaries reported on a monthly basis.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Financial Planning, Accounting and Reporting (Continued)

Business Administrator's Records (Continued)

Finding – Transfers between budgetary line items, additional appropriations of revenue and the Board Secretary's monthly reports of May and June, 2018 were approved by the Commission subsequent to July 31, 2018.

Recommendation – All transfers, additional appropriations of revenue and the monthly Board Secretary's financial reports be approved in a timely manner and in accordance with the statutory requirements.

Finding – The Office of the State Comptroller was not notified of the lease purchase agreement which exceeded \$2 million.

Recommendation – The Commission notify the Office of the State Controller for any contract awarded or lease purchase entered into which is in excess of \$2 million.

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 2018-002) – Expenditures reported on the various federal grant reports were not in agreement with the Commission's budgetary accounting records.

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

Finding (CAFR 2018-002) – Time and activity reports were not maintained for employees charged to the Migrant and McKinney (Homeless Children and Youth) grants. In addition, the personnel charged to the various federal grants and their respective salaries were not approved by the Board.

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

Finding – Our audit noted that expenditures charged to the Title I services for the Union County Detention Center were greater than the amounts billed to the school district for reimbursement.

Recommendation – The Commission review its billing procedures for reimbursement of Title I expenditures for the Union County Detention Center to ensure that all expenditures are submitted for reimbursement.

Finding (CAFR 2018-002) – Our audit of the Migrant grant identified expenditures of \$41,461 for office furniture and professional dues/memberships which do not appear to be eligible grant costs.

Recommendation – Only those expenditures allowed under Uniform Guidance and grant compliance supplements be charged to the Migrant grant.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Financial Planning, Accounting and Reporting (Continued)

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.

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.

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 \$19,000. The District has appointed 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 – Our audit of purchasing revealed the following:

- a) Political contribution disclosure forms were not obtained for certain vendors who were paid in excess of \$17,500.
- b) Professional service contracts for OT/PT services were not approved by resolution and included in the Commission's minutes. In addition, the contracts were not advertised when awarded.
- c) Travel related expenditures exceeded the maximum established by the Commission.

Recommendation – It is recommended that:

- a) Political contribution disclosure forms be obtained prior to award of the contract for vendors paid in excess of \$17,500.
- b) Professional service contracts for OT/PT services be approved by resolution, included in the Commission's minutes, and be advertised when awarded.
- c) The Commission review and appropriately adjust its annual travel maximum to ensure that travel expenditures do not exceed the maximum established.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

School Food Service

The School Food Service Program was not selected as a major program nor has the Commission expended more than \$100,000 in Federal and State support.

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.

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 G-1, G-2 and G-3.

Finding – Our audit of the Food Service Enterprise Fund noted the following:

- a) The Fund had a loss of \$23,186 for the year ended June 30, 2018.
- b) Differences were noted between the number of meals claimed and the meals reported on the edit check worksheets. We were unable to determine the dollar amount of the over(under) claim.
- c) Applications for free and reduced meals did not contain the approval signature of the determining official.

Recommendation – It is recommended that:

- a) The Commission review the operations of its food service program to ensure that the program does not operate at a loss.
- b) Meals claimed for reimbursement agree with amounts reported on edit check worksheets.
- c) Applications for free and reduced meals contain all applicable signatures.

Cooperative Purchasing Enterprise Fund

The Commission operates a cooperative purchasing enterprise fund.

Finding - The Commission's Cooperative Purchasing Enterprise Fund ended the school year with a deficit of \$16,550.

Recommendation – The Commission review the operations of the Cooperative Purchasing Enterprise Fund and take appropriate action to eliminate the deficit.

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.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Miscellaneous

The Commission adhered to all 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. The annual Statement of Assurance to the Department of Education, pursuant to N.J.A.C. 6A:26-12.4(g).

Facilities and Capital Assets

The Commission contracted with Industrial Appraisal to perform a valuation of its capital assets.

Finding – The Commission’s fixed asset appraisal report did not include the land and building values for the properties acquired during the fiscal year ended June 30, 2018.

Recommendation – All land and building values be added/included to the Commission’s fixed asset valuation.

Suggestions to Management

- The Commission review its billing procedures to ensure that billings are prepared in a timely manner.

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, 2018**

Schedule is not applicable.

**SCHEDULE OF NET CASH RESOURCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Schedule is not applicable.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

RECOMMENDATIONS

I. Administrative Practices and Procedures

It is recommended that all banking and financial institutions utilized by the Commission be approved by the Board as designated depositories.

II. Financial Planning, Accounting and Reporting

It is recommended that:

1. The Commission complete a payroll verification in accordance with the New Jersey Administrative Code.
2. The Commission's monthly financial reports be in agreement with the reconciled bank balances.
- * 3. The Commission reconcile its Special Revenue Fund service fee billings with related program expenditures and adjust its budgetary accounting records accordingly.
4. The accounts receivable balances be reviewed, collected or adjusted in a timely manner.
5. General ledger receivable balances be reconciled with the detailed billing summaries reported on a monthly basis.
6. All transfers, additional appropriations of revenue and the monthly Board Secretary's financial reports be approved in a timely manner and in accordance with the statutory requirements.
7. The Commission notify the Office of the State Controller for any contract awarded or lease purchase entered into which is in excess of \$2 million.
- * 8. Grant financial reports be reconciled to the Commission's budgetary accounting records prior to their submission.
- * 9. Time and activity reports be completed for all employees funded by a federal grant. In addition, all employees charged to a federal grant be referenced by name and pro-rata salary on a resolution approved by the Board.
10. The Commission review its billing procedures for reimbursement of Title I expenditures for the Union County Detention Center to ensure that all expenditures are submitted for reimbursement.
11. Only those expenditures allowed under Uniform Guidance and grant compliance supplements be charged to the Migrant grant.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

RECOMMENDATIONS (Continued)

III. School Purchasing Program

It is recommended that:

1. Political contribution disclosure forms be obtained prior to award of the contract for vendors paid in excess of \$17,500.
2. Professional service contracts for OT/PT services be approved by resolution, included in the Commission's minutes, and be advertised when awarded.
3. The Commission review and appropriately adjust its annual travel maximum to ensure that travel expenditures do not exceed the maximum established.

IV. Food Service Fund

It is recommended that:

1. The Commission review the operations of its food service program to ensure that the program does not operate at a loss.
2. Meals claimed for reimbursement agree with amounts reported on edit check worksheets.
3. Applications for free and reduced meals contain all applicable signatures.

V. Cooperative Purchasing Enterprise Fund

- * It is recommended that the Commission review the operations of the Cooperative Purchasing Enterprise Fund and take appropriate action to eliminate the deficit.

VI. Student Body Activities

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

VII. Pupil Transportation

There are none.

VIII. Miscellaneous

There are none.

IX. Facilities and Capital Assets

It is recommended that all land and building values be added/included to the Commission's fixed asset valuation.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

RECOMMENDATIONS (Continued)

X. Follow-up Prior Year Findings

There are none.

XI. 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 J. Vinci
Public School Accountant
PSA Number CS00829