

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS -
FINANCIAL, COMPLIANCE AND PERFORMANCE
JUNE 30, 2019**

**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	2-4
School Purchasing Programs	4-5
School Food Service	5
Cooperative Purchasing Enterprise Fund	6
Student Body Activities	6
Pupil Transportation	6
Miscellaneous	6
Facilities and Capital Assets	6
Follow-up Prior Year Findings	6
Number of Meals Served and (Over)/Underclaimed – Not Applicable	7
Schedule of Net Cash Resources – Not Applicable	7
Recommendations	8-9
Acknowledgement	9



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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, 2019, and have issued our report thereon dated January 16, 2020.

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
January 16, 2020

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

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 (July 1, 2018 to February 28, 2019)	\$400,000
Carrie Grapstein	Interim School Business Administrator (March 1, 2019 to June 30, 2019)	\$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.

The Commission completed 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, 2019**

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, 2019. 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 (CAFR Finding 2019-001) - Our audit of the Commission's financial accounting records revealed the following:

- a) The Commission's year end accounts payable was overstated by \$2.5 million in the General Fund and \$16 thousand in the Special Revenue Fund.
- b) Certain indirect costs and administrative fees were not charged to the Commission's Special Revenue Fund programs.
- c) The General Fund revenues as reported in the Commission's Board Secretary's report was not in agreement with the subsidiary accounting records. The Board Secretary's report revenues were overstated by approximately \$7.5 million.

Recommendation –

- a) Internal control procedures be reviewed and enhanced to ensure that all liabilities are properly reported in the Commission's year-end financial reports.
- b) The Commission review its Special Revenue Fund revenues and expenditures prior to the year end close out to ensure that central and general administrative costs are recorded in the budgetary accounting system.
- c) The Commission review the monthly Board Secretary's report to ensure that revenues are in agreement with subsidiary financial reports.

Finding (CAFR Finding 2019-002) - Our audit revealed the following:

- a) Monthly bank reconciliations were not completed in a timely manner.
- b) Monthly Board Secretary's report and the Board's certification of availability of funds were not completed and submitted to the Board of Commissioners for their approval in a timely manner.
- c) Documentation for additional budget appropriations and reductions were not always available for audit, nor could the adjustments be verified to the Commission's official minutes.

Recommendation - Internal control procedures be reviewed and enhanced to ensure that all monthly financial reports are completed and approved in a timely manner. In addition, all modifications to the Commission's budget be submitted to the Board for their approval.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Financial Planning, Accounting and Reporting (Continued)

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 – Expenditures reported on the migrant grant reports were not in agreement with the Commission's budgetary accounting records. A difference of \$3,645 was noted.

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

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.

Teacher's Pension and Annuity Fund (TPAF)

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.

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.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

School Purchasing Programs (Continued)

Contracts and Agreements Requiring Advertisement for Bids (Continued)

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 that certain professional service contracts for consultants were not approved by the Commissioners and included in the Commission's minutes. In addition, the contracts were not always advertised in the legal newspaper when awarded.

Recommendation – It is recommended that certain professional service contracts for consultants be approved by the Board, included in the Commission's minutes, and be advertised in the legal newspaper when awarded.

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 a 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.

The Commission operates the Child Nutrition Program under the Community Eligibility Provision (CEP). To be eligible for the CEP, schools must have a minimum of forty percent of identified students directly certified for free meals in the prior school year; agree to serve free lunches and breakfasts to all students; and agree to cover with non-federal funds any costs of providing free meals to all students that exceed the Federal reimbursement. There are no household applications collected and reimbursement is based on meals claimed. The Commission is required to collect Household Surveys. Our audit procedures included a test to verify that the number of meals claimed agreed with supporting documentation.

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 incurred a loss of \$19,785 for the fiscal year ended June 30, 2019.
- b) Household surveys for students were not on file at the Commission.

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) A copy of the household survey be on file at the Commission.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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 \$15,650.

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.

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.

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 update the report for the valuation of its capital assets.

Finding – An audit of the Commission's capital assets noted unrecorded additions of \$300,395 and unrecorded deletions of \$422,470.

Recommendation – Greater care be taken in the reporting of the Commission's capital assets.

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, 2019**

Schedule is not applicable.

**SCHEDULE OF NET CASH RESOURCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Schedule is not applicable.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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 reports.
2. The Commission review its Special Revenue Fund revenues and expenditures prior to the year end closeout to ensure that central and administrative costs are recorded in the budgetary accounting system.
3. The Commission review the monthly Board Secretary's report to ensure that revenues are in agreement with subsidiary financial reports.
4. Internal control procedures be reviewed and enhanced to ensure that all monthly financial reports are completed and approved by the Board in a timely manner. In addition, all modifications to the Commission's budget be submitted to the Board for their approval.
- * 5. Migrant grant financial reports be reconciled to the Commission's budgetary accounting records prior to their submission.
6. 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.

III. School Purchasing Program

It is recommended that certain professional service contracts for consultants be approved by the Board, included in the Commission's minutes, and be advertised in the legal newspaper when awarded.

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. A copy of the household survey be on file at the Commission.

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.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

RECOMMENDATIONS (Continued)

VI. Student Body Activities

There are none.

VII. Pupil Transportation

There are none.

VIII. Miscellaneous

There are none.

IX. Facilities and Capital Assets

It is recommended that greater care be taken in the reporting of the Commission's capital assets.

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