

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS -
FINANCIAL, COMPLIANCE AND PERFORMANCE
JUNE 30, 2017**

**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, 2017, and have issued our report thereon dated December 4, 2017.

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
December 4, 2017

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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>
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/Board Secretary and were certified by 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.

Finding – The net payroll and payroll agency bank accounts were not reconciled in a timely manner.

Recommendation – The net payroll and payroll agency bank accounts be reconciled on a monthly basis.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017. 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 2017-001) – The Commission’s year end accounts payable were overstated by over \$2.1 million in General Fund, \$230 thousand in the Special Revenue fund and \$50 thousand in the Capital Projects Fund.

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

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 (CAFR 2017-001) – Administrative salaries and other departmental costs are charged to several Commission programs. These indirect costs and administrative fees 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 2017-002) – The General Fund additional appropriations of revenue were not always approved by the Board.

Recommendation – Additional appropriations of revenue be submitted to the Board for their approval.

Finding (CAFR 2017-001) – 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. Furthermore, the budgetary accounting records be adjusted in a timely manner.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Financial Planning, Accounting and Reporting (Continued)

Business Administrator's Records (Continued)

Finding (CAFR 2017-002) – The Commission’s June 30, 2017 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 2017-002) – The Commission’s Board Secretary’s Report did not include certain balance sheet accounts or budget line items that were added to the Commission’s financial reports during the year.

Recommendation – The Board Secretary’s Report be reviewed monthly to ensure that all accounting and budgetary line items are appropriately reported.

Finding (CAFR 2017-002) – The original budget for certain line items in the General Fund and Special Revenue Fund were not in agreement with the approved state budget document.

Recommendation – The original budget for the General and Special Revenue Fund be reviewed to ensure that the budget is in agreement with the approved state budget document.

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. Expenditures reported on the various federal grant reports were not in agreement with the Commission’s budgetary accounting records.

Finding (CAFR 2017-003) – 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 2017-003) – Time and activity reports were not maintained for the period February 16, 2017 to June 30, 2017 for employees charged to the Title I grant. In addition, Title I personnel and their respective salaries were not approved by the Board.

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.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 \$18,800. The District appointed a Qualified Purchasing Agent on August 25, 2016.

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 – Individual cooperative purchasing contracts utilized by the Commission, were not submitted to the Board for their approval.

Recommendation – Cooperative purchasing contracts exceeding the bid threshold be awarded by a Board resolution in accordance with N.J.A.C. 5:34-7.11.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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.

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.

The Department of Agriculture performed an Administrative Review of the Breakfast and Lunch Program at the Commission. The Department of Agriculture held an exit conference with the Administration and subsequently provided an "Administrative Review Summary Report" detailing the findings. The Commission submitted a corrective action plan which was accepted by the Department of Agriculture.

Cooperative Purchasing Enterprise Fund

The Commission established a cooperative purchasing enterprise fund during the 2016-17 school year.

Finding - The Commission's Cooperative Purchasing Enterprise Fund ended the school year with a \$20,750 deficit in operations.

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.

Suggestions to Management

- The Commission review its billing and collection procedures to ensure that receivables are collected and/or written off 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, 2017**

Schedule is not applicable.

**SCHEDULE OF NET CASH RESOURCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Schedule is not applicable.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 submitted to the Board for their approval.
- * 4. The Commission reconcile its Special Revenue Fund service fee billings with related program expenditures. Furthermore, the budgetary accounting records be adjusted 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 prior to their submission.
- * 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.
- 8. The net payroll and payroll agency bank accounts be reconciled on a monthly basis.
- 9. The Board Secretary's Report be reviewed monthly to ensure that all accounting and budgetary line items are appropriately reported.
- 10. The original budget for the General and Special Revenue Fund be reviewed to ensure that the budget is in agreement with the approved state budget document.
- 11. 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, 2017**

RECOMMENDATIONS (Continued)

III. School Purchasing Program

- * It is recommended that cooperative purchasing contracts exceeding the bid threshold be awarded by a Board resolution in accordance with N.J.A.C. 5:34-7.11.

IV. Food Service Fund

There are none.

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

There are none.

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 J. Vinci
Public School Accountant
PSA Number CS00829