

**AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS –  
FINANCIAL, COMPLIANCE AND PERFORMANCE**

**of**

**The Educational Services Commission of Morris County  
Morristown, New Jersey**

**For the Fiscal Year Ended June 30, 2017**

**AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS  
FINANCIAL, COMPLIANCE AND PERFORMANCE**

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Tax ID Number 22-2003436

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Vincent M. Montanino, RMA, PSA

## Report of Independent Auditors

Honorable President and  
Members of the Board of Education  
The Educational Services Commission of Morris County  
County of Morris, 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 Board of Education of the Educational Services Commission of Morris County in the County of Morris for the year ended June 30, 2017, and have issued our report thereon dated December 5, 2017.

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

This report is intended for the information of the Educational Services Commission of Morris County's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.



Vincent M. Montanino  
Licensed Public School Accountant  
No. 20CS000495

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Newton, New Jersey



**Administrative Findings – Financial, Compliance and Performance**

Scope of Audit

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

**Administrative Practices and Procedures**

Insurance

Insurance coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the district's CAFR.

Official Bonds

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Catarina Bilotta	Business Administrator/Board Secretary	\$ 125,000.00
Angelo Vilardi, Ed.D.	Superintendent/Treasurer	125,000.00

Tuition Charges

The provisions of N.J.A.C. 6A:23-3.1 (f)3 are not applicable.

**Financial Planning, Accounting and Reporting**

Examination of Claims

Claims paid during the period under review were examined on a test basis to determine that they are submitted on Board vouchers, itemized, signed by the officials as to approval for payment, endorsement for receipt of materials, allocated to the proper accounts, charged to the proper fiscal period and in agreement with bill list set forth in the approved minutes of the Board.

The review and inquiry indicate good scrutiny on the part of the Board and Board Officials regarding expenditures.

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

### **Payroll Account**

The net salaries of all employees of the Board were deposited in the Payroll Account. Employees' payroll deductions and the Board's required payroll contributions were deposited in the Payroll Agency Account.

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

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

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<sup>th</sup> for goods not yet received or services yet received or services not yet rendered and it was determined that no blanket purchase orders were included in the balance of the reserve for encumbrances. Also, unpaid orders included in the balance of accounts payable were reviewed for priority and to determine that goods were received, and services were rendered as of June 30<sup>th</sup>.

### **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 selection 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 no errors were noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

### **Board Secretary's Records**

The prescribed contractual order system was followed.

All purchase orders tested were charged to the appropriate line accounts in accordance with the State prescribed Uniform Minimum Chart of Accounts (2R2) For New Jersey Public Schools.

Monthly certifications of line-item appropriations and fund status were filed in accordance with N.J.A.C. 6A:23A-16.10 and Division of Finance Policy Bulletin 200-11.

Acknowledgment of the Board's receipt of the Board Secretary's and Treasurer's monthly financial reports was included in the minutes.

The school district's double entry system of accounting records were maintained in accordance with the Department of Education's prescribed GAAP Technical Systems Manual, pursuant to N.J.S.A. 18A:4-14 and N.J.A.C. 6A:23-2.

The general fixed asset records were updated for the additions and disposals of general fixed assets made during the year.

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

### **Treasurer's Records**

The Treasurer performed cash reconciliations for the general operating account, capital projects fund, payroll account and payroll agency account in accordance with N.J.S.A. 18A:17-9.

All cash receipts tested were promptly deposited.

The Treasurer's records were in agreement with the records of the Board Secretary.

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

The district's Special Projects were approved as listed on Schedule A and Schedule B 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.

The study of compliance for Special Federal and/or State Projects indicated no areas of noncompliance and/or questionable costs.

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

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

## **School Purchasing Programs**

### **Contracts and Agreements Requiring Advertisement for Bids**

N.J.S.A. 18A:18A-2 contains definitions for terms used throughout N.J.S.A. 18A:18A-1 et seq. It includes as subsection (p) the term "competitive contracting", which is defined as "the method described in N.J.S.A. 18A:18A-4.1 through 18A:18A-4.5 and in the rules promulgated by DCA at N.J.A.C. 5:34-4 of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel or school business administrator; and the board of education awards a contract to a vendor or vendors from among the formal proposals received". Also, subsection (aa) defines the term 'concession' to exclude vending machines.

N.J.S.A. 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. There is a higher threshold when there is a "Qualified Purchasing Agent" (QPA) in the district as defined at N.J.A.C. 5:34-1.1 and certified upon approval of an application submitted to DCA. Pursuant to N.J.S.A. 18A:18A-3(b), the bid threshold may be adjusted by the Governor, in consultation with the Department of Treasury every five years.

N.J.S.A. 18A:18A-4.4 provides boards of education the authority to pass a resolution authorizing the use of competitive contracting. "In order to initiate competitive contracting, the board of education shall pass a resolution authorizing the use of competitive contracting each time specialized goods or services enumerated in section 45 of PL. 1999, c440 are desired to be contracted".

## **School Purchasing Programs (Continued)**

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

Effective July 1, 2015 and thereafter the bid thresholds in accordance with N.J.S.A. 18A:18A-2 and 18A:18A-3(a) and 18A:39-3 (Transportation) are \$40,000 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent) and \$18,800.00 respectively.

It is pointed out that the Board of Education has the responsibility of determining whether the commitments and expenditures are in compliance with the statutes and, where question arises as to whether any contract or agreement might result in violation of these statutes the Board attorney's opinion should be sought before commitment is made.

Inasmuch as the system of records is not required to provide and therefore did not provide for an accumulation of payments by categories for the performance of any work or the furnishings 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. None were disclosed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the provision or performance of any goods or services," in excess of the statutory limit 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 is not required to provide and therefore 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. Our examination did reveal however, that the following purchases were made through the use of State contracts: Computers.

### **School Food Service**

The financial transactions and statistical records of the school food service fund were maintained in satisfactory condition. The financial accounts and meal count records were reviewed on a test check basis.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food supply items were currently maintained and properly applied in determining the cost of food and supplies used.

The cash disbursements records reflected expenditures for program related goods and services. The District utilizes a food service management company and is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did not exceed three months average expenditures.

The food service management company had a service audit performed in accordance with AICPA Statement on Auditing Standards (SAS) #70, as amended by SAS #88 (effective February, 2000).

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Proprietary Funds (Exhibits B-4, B-5, B-6).

**Student Activity Funds**

Cash receipts and disbursement records were maintained in satisfactory condition.

All receipts were promptly deposited in the bank.

Payment authorizations were presented for audit and vendor invoices were available for examination.

The Board adopted a formal board policy that all financial and bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices.

**Lease Purchase Agreements Involving Issuance of Certificates of Participation**

The Commission's Certificates of Participation were defeased in 2003-2004 through the Morris County Improvement Authority.

**Status of Prior Years' Audit Findings/Recommendations**

NOT APPLICABLE

**Acknowledgment**

We wish to express our appreciation for the assistance and courtesies extended to us by Board officials and employees during the course of our audit.

Respectfully submitted,



Vincent M. Montanino  
Licensed Public School Accountant  
License No. 20CS000495

***Ferraioli, Wielkotz, Cerullo & Cuva, P.A.***

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Certified Public Accountants



SCHEDULE OF MEAL COUNT ACTIVITY

BOARD OF EDUCATION  
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

FOOD SERVICE FUND  
NUMBER OF MEALS SERVED  
ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOT APPLICABLE

**EXCESS SURPLUS CALCULATION – NOT APPLICABLE**

**REGULAR DISTRICT**

**SECTION 1**

**A. 2% Calculation of Excess Surplus**

2016-17 Total General Fund Expenditures per the CAFR, Ex.C-1 \$ \_\_\_\_\_ (B)

Increased by:

Transfer from Capital Outlay to Capital Projects Fund \$ \_\_\_\_\_ (B1a)  
Transfer from Capital Reserve to Capital Projects Fund \$ \_\_\_\_\_ (B1b)  
Transfer from General Fund to SRF for PreK-Regular \$ \_\_\_\_\_ (B1c)  
Transfer from General Fund to SRF for PreK-Inclusion \$ \_\_\_\_\_ (B1d)

Decreased by:

On-Behalf TPAF Pension & Social Security \$ \_\_\_\_\_ (B2a)  
Assets Acquired Under Capital Leases \$ \_\_\_\_\_ (B2b)

Adjusted 2016-17 General Fund Expenditures [(B)+(B1s)-(B2s)] \$ \_\_\_\_\_ (B3)

2% of Adjusted 2016-17 General Fund Expenditures [(B3) times .02] \$ \_\_\_\_\_ (B4)

Enter Greater of (B4) or \$250,000 \$ \_\_\_\_\_ (B5)

Increased by: Allowable Adjustment \* \$ \_\_\_\_\_ (K)

Maximum Unreserved/Undesignated Fund Balance [(B5)+(K)] \$ \_\_\_\_\_ (M)

**SECTION 2**

Total General Fund – Fund Balances @ 6-30-17 \$ \_\_\_\_\_ (C)  
(Per CAFR Budgetary Comparison Schedule C-1)

Decreased by:

Year-End Encumbrances \$ \_\_\_\_\_ (C1)  
Legally Restricted – Designated for Subsequent Year's Expenditures \$ \_\_\_\_\_ (C2)  
Legally Restricted – Excess Surplus – Designated for Subsequent Year's Expenditures \*\* \$ \_\_\_\_\_ (C3)  
Other Restricted Fund Balances\*\*\*\* \$ \_\_\_\_\_ (C4)  
Assigned Fund Balance – Unreserved – Designated For Subsequent Year's Expenditures \$ \_\_\_\_\_ (C5)  
Additional Assigned Fund Balance-Unreserved- Designated for Subsequent Year's Expenditures July 1, 2017-August 1, 2017 \$ \_\_\_\_\_ (C6)\*\*\*\*\*

Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)] \$ \_\_\_\_\_ (U1)

**SECTION 3**

Restricted Fund Balance – Excess Surplus \*\*\*[(U1)-(M)] IF NEGATIVE ENTER -0-\$ \_\_\_\_\_ (E)

**Recapitulation of Excess Surplus as of June 30, 2017**

Reserved Excess Surplus – Designated for Subsequent Year’s Expenditures **	\$ _____(C3)
Reserved Excess Surplus ***[(E)]	\$ _____(E)
Total [(C3) + (E)]	\$ _____(D)

**Footnotes**

\* Allowable adjustment to expenditures on line K must be detailed as follows. This adjustment line (as detailed below) is to be utilized when applicable for:

- (H) Federal Impact Aid. The passage of P.L. 2015, c46 amended N.J.S.A. 18A:7F-41 to permit a board of education to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. Accordingly, effective for the year ending June 30, 2017 the Federal Impact Aid adjustment to expenditures is limited to the portion of Federal Impact Aid Section 8002 and Section 8003 received during the fiscal year and recognized as revenue on the General Fund Budgetary Comparison Schedule, but not transferred to the Federal Impact Aid Reserve-General (8002 or 8003) by board resolution during June 1 to June 30 of the fiscal year under audit. Amounts transferred to the reserve are captured on line (C4);
- (I) Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10);
- (J1) Extraordinary Aid;
- (J2) Additional Nonpublic School Transportation Aid;
- (J3) Recognized current year School Bus Advertising Revenue; and
- (J4) Family Crisis Transportation Aid.

**Detail of Allowable Adjustments**

Impact Aid	\$ _____(H)
Sale & Lease-back	\$ _____(I)
Extraordinary Aid	\$ _____(J1)
Additional Nonpublic School Transportation Aid	\$ _____(J2)
Current Year School Bus Advertising Revenue Recognized	\$ _____(J3)
Family Crisis Transportation Aid	\$ _____(J4)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)]	\$ _____(K)

\*\* This amount represents the June 30, 2017 Excess Surplus (C3 above) and must be included in the Audit Summary Line 90031.

\*\*\* Amount must agree to the June 30, 2017 CAFR and must agree to Audit Summary Line 90030.

\*\*\*\* Amount for Other Reserved Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by another type of government, such as the judicial branch of government, must have Departmental approval. District requests should be submitted to the Division of Finance prior to September 30.

\*\*\*\*\* Increase in Assigned Fund Balance-Unreserved -Designated for Subsequent Year’s expenditures July 1, 2017 to August 1, 2017 resulting from decrease in state aid after adoption of 2017-18 district budget.

**Detail of Other Restricted Fund Balance**

Statutory restrictions:	\$ _____
Approved unspent separate proposal	\$ _____
Sale/lease-back reserve	\$ _____
Capital reserve	\$ _____
Maintenance reserve	\$ _____
Emergency reserve	\$ _____
Tuition reserve	\$ _____
School Bus Advertising 50% Fuel Offset Reserve-current year	\$ _____
School Bus Advertising 50% Fuel Offset Reserve-prior year	\$ _____
Impact Aid General Fund Reserve (Sections 8002 and 8003)	\$ _____
Impact Aid General Fund Reserve (Sections 8007 and 8008)	\$ _____
Other state/government mandated reserve	\$ _____
[Other Restricted Fund Balance not noted above]****	\$ _____
 Total Other Restricted Fund Balance	 \$ _____ (C4)