

Auditor's Management Report

for the

*Union County Educational
Services Commission*

in the

*County of Union
New Jersey*

for the

*Fiscal Year Ended
June 30, 2017*

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

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Scope of Audit	2
Administrative Practices and Procedures	
Insurance	2
Official Bonds	2
Tuition and Local Educational Agency Charges	2
Financial Planning, Accounting and Reporting	
Examination of Claims	2
Payroll Accounts	3
Position Control Roster	3
Reserve for Encumbrances and Accounts Payable	3
Classification of Expenditures	3
Business Administrator's Records	3
Other Special Federal and/or State Projects	4
T.P.A.F. Reimbursement	4
School Purchasing Programs	
Contracts and Agreements Requiring Advertisement for Bids	5-6
School Food Service	6-7
Student Body Activities	7
Transportation	8
Testing for Lead of Drinking Water in Educational Facilities	8
Follow-Up on Prior Year's Audit Findings	8
Recommendations	9



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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Directors
Union County Educational Services Commission
County of Union, 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 Union County Educational Services Commission in the County of Union for the year ended June 30, 2017, and have issued our report 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 are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended solely for the information of the Union County Educational Services Commission in the County of Union, 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. 948

December 5, 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 Union County Educational Services Commission, and the records of the various funds under the auspices of the Union County Educational Services Commission.

Administrative Practices and Procedures

Insurance

Insurance coverage was carried in the amounts as detailed in the Commission's CAFR. (See Exhibit J-20)

Official Bonds

<u>Name</u>	<u>Position</u>	<u>Amount of Bonds</u>
Dr. Robert Behot	Business Administrator/Board Secretary	\$320,000.00
All Employees	Employee Dishonesty	400,000.00

Adequacy of insurance coverage is the responsibility of the Union County Educational Services 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.

2017-01 Finding: We noted that services performed and billed for Non-Public Chapter 192/193 and IDEA were not reconciled to the budget line items being charged for employees performing these services.

2017-01 Recommendation: That formal policies be developed to reconcile amounts billed for Non-Public Chapter 192/193 and IDEA services to budget line items being charged for employees performing these services.

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

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, certifications or supporting documentation.

Payroll Accounts

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/Business Administrator and were certified by the President of the Commission.

Salary withholdings were promptly remitted to the proper agencies including health benefits premium amounts withheld due to the general fund.

Payrolls were delivered to the secretary of the board with a warrant made to his order for the full amount of each payroll.

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, 2017 for proper classification of orders as reserve for encumbrances and accounts payable. No exceptions were noted.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23-16.2(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, three errors were 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

Business Administrator's Records

The records maintained by the Business Administrator were maintained in satisfactory condition.

2017-02 Finding: We noted several accounts receivable balances at June 30, 2017 that have remained uncollected for several months after the balance sheet date.

2017-02 Recommendation: That formal policies be developed to facilitate the timely collection or cancellation of accounts receivable balances.

Other Special Federal and/or State Projects

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

- Basic Skills
- Bloodborne Pathogens
- Child Study Team
- E.D. Program
- Non-Public Textbooks
- Non-Public Technology Initiative
- Non-Public Nursing Services
- Non-Public Chapter 192/193
- IASA Title I Neglected, At Risk Children
- ESEA Title I P.L. 103-382
- Day Treatment Program (DYFS)
- Substance Abuse Education Program (Union County)
- U.C. Juvenile Detention Center Education Program
- IDEA Part B Basic Flow Through

The Commission'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.

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

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursement filed with the Department of Education for Commission 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-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 therefor, 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 for each contract for by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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 therefor, 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."

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

School Purchasing Programs (Continued)

Contracts and Agreements Requiring Advertisement for Bids (Continued)

Effective July 1, 2015, the bid threshold in accordance with N.J.S.A. 18A:18A-3(a) and (c) is \$29,000.00. In accordance with N.J.S.A. 40A:11-9 (b) the bid threshold for all purchases made by the Commission's qualified purchasing agent is \$40,000.00. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18:39-3 is currently \$18,800.00.

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.

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. Our examination did reveal however, that the Commission made purchases through the use of state contracts.

School Food Service

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims and whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs. Our inquiry resulted in no exceptions noted.

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

School Food Service (Continued)

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.

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.

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.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used. No exceptions were noted.

The cash disbursements records reflected expenditures for program related goods and services. The Board 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 did not exceed three months average expenditures.

Cash receipts and bank records were reviewed for timely deposit.

Food Distribution Program commodities were received and an inventory was maintained on a first-in, first-out basis. No exceptions were noted.

The Statement of Revenues, Expenses and Changes in Fund Net Assets (CAFR Schedule B-5) does separate program and non-program revenue and program and non-program cost of goods sold.

The Commission maintains the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

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

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

Student Body Activities

The records for the Student Body Activities were maintained in satisfactory condition.

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. No exceptions were noted in our review of transportation related purchases of goods and services.

Testing for Lead of Drinking Water in Educational Facilities

The school district 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 Prior Year's Audit Findings

In accordance with government auditing standards, our procedures included a review of the status of prior year audit recommendations. Corrective action had been taken on all prior year findings

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

Recommendations

Administrative Practices and Procedures

2017-01 Recommendation: That formal policies be developed to reconcile amounts billed for Non-Public Chapter 192/193 and IDEA services to budget line items being charged for employees performing these services.

Financial Planning, Accounting and Reporting

2017-02 Recommendation: That formal policies be developed to facilitate the timely collection or cancellation of accounts receivable balances.

School Purchasing Programs

None

School Food Service

None

Student Body Activities

None

Application for State School Aid

None

Transportation

None

Testing for Lead of Drinking Water in Educational Facilities

None

Prior Year Audit Findings

None

