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Essex County Vocational Schools

July 1, 2005 to June 30, 2006

**Richard L. Fair
State Auditor**

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Enclosed is our report on the audit of the Essex County Vocational Schools for the period of July 1, 2005 to June 30, 2006. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Richard L. Fair".

Richard L. Fair
State Auditor
December 27, 2007

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Essex County Vocational Schools

Scope

We have completed a forensic audit of the Essex County Vocational Schools District for the period July 1, 2005 to June 30, 2006. Our audit included financial activities accounted for in the district's general fund. Total expenditures were \$32 million in fiscal year 2006. The district provides both occupational and academic instruction for high school and adult students.

Objectives

The objective of our audit was to determine the primary factors that contributed to the district's fiscal year 2006 year-end general fund deficit of \$438,000.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in the "School District Fiscal Accountability Act", Title 18A:7A-57 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, and policies of the school district. We read school district budgets, reviewed financial trends, and interviewed school district personnel to obtain an understanding of the programs and the internal controls. We also interviewed officials from the Department of Education and Essex County to gain an understanding of their oversight and monitoring functions. In addition, we reviewed annual audit reports issued by the district's public school accountants.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected for testing.

Conclusions

We found that the administration overstated miscellaneous revenues for the budget year 2006 by \$2.2 million, which had a direct impact on the tax levy requested from the county.

We also noted weaknesses in financial and administrative controls which have been included in a separate report dated December 31, 2007.

Anticipated revenues were not realistically budgeted.

As of June 30, 2005, the district had a general fund balance of \$1.7 million. This surplus resulted from the sale of a building for \$3.5 million in September 2004. The proceeds from this sale were properly recorded in fiscal year 2005; however, \$2.2 million was improperly budgeted again as anticipated revenue for fiscal year 2006. This overstatement of revenue was the primary cause of the \$438,000 deficit in the general fund.

During fiscal year 2003 the minimum tax levy was \$4.9 million and has since been reduced at least \$1 million each year. At the same time interfund borrowing increased by \$1 million to support general fund operation. The district's cash flow problems were first reported in the fiscal year 2004 independent auditors' management report but were not addressed by the district board, Essex County, or state officials. As of June 30, 2006 the interfund payable amounted to \$4 million.

Recommendation

We recommend that the board and county superintendent perform periodic reviews of monthly financial reports to ensure budgetary compliance and to investigate any unusual discrepancies.

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December 26, 2007

Mr. Joseph Ettenger
Office of the State Auditor
125 South Warren Street, P.O. Box 067
Trenton, NJ 08625-0067

Auditee Response to State Forensic Audit of Essex County Vocational Schools District

Dear Mr. Ettenger,

The following is the Essex County Vocational Schools District response to the State Forensic Audit Report (Confidential Draft, December 13, 2007) recommendations for the period July 1, 2005 to June 30, 2006.

ANTICIPATED REVENUES WERE NOT REALISTICALLY BUDGETED

Recommendation: We recommend that the board and county superintendent perform periodic reviews of monthly financial reports to ensure budgetary compliance and to investigate any unusual discrepancies.

Auditee Response: The District (Board of Education and the County Executive) have recruited a Certified Interim Assistant Superintendent for Business (October 2006) and a permanent Certified School Business Administrator (July 2007) to assume management of the financial operations of the District. The Interim Superintendent for Business and the School Business Administrator prepare and review monthly financial reports for budgetary compliance.

In January 2007 the Assistant Superintendent for Business froze the 2006-2007 budget and requested an additional \$3.0M in county tax levy. The County Executive, not having been informed of the districts cash flow problems which were first reported in the fiscal year 2004 independent auditors' management report, authorized the additional funding, raising the total county tax levy from \$1.7M to \$4.7M. These actions resulted in the elimination of the budget deficit.

Currently the district's financial picture has turned positive. Anticipated increases in the county tax levy and state aid in 2008-2009 should enable the District to reduce the inter-fund payable and report a surplus status in 2008-2009.

If you have any questions or need additional information you may contact me at 973-412-2061.

Respectfully Submitted,

Vito Dellibovi
Board Secretary

Cc: Mr. C. Paslawsky
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