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June 18, 2025

Mayor Al Gubitosi
Members of the Governing Body
Borough of Bradey Beach
701 Main Street
Bradley Beach, NJ 07720-1089

Re: Financial Review of Bradley Beach

Dear Mayor Gubitosi and Members of the Governing Body,

I have reviewed the financial statements of the Borough of Bradley Beach which comprise the balance sheet as of December 31, 2018, through December 31, 2024, and the related statements of income, and cash flows, budget status reports for the years then ended, and the related notes to the financial statements along with Annual Audit Reports, Annual Financial Statements, Annual Debt Statements, and Adopted Municipal Budgets. A review includes primarily applying analytical procedures to management's financial data and making inquiries about the Boroughs' financial management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Financial Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. With that said, **there is a lack of internal controls and there are improper accounting practices and procedures which were noted specifically in the years 2019 through 2024.**

My responsibility is to conduct a review engagement in accordance accounting standards. These standards require me to perform procedures to obtain limited assurance as to whether or not I am aware of any material modifications that should be made to the financial statements for them to be in accordance with generally accepted accounting principles as promulgated by the State of New Jersey Local Finance Board. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Based on my review, I have not uncovered any fraud or embezzlement, but I have observed a

deficit in internal controls. Internal controls should be at the forefront to prevent any fraud, theft, embezzlement or scams which the Borough could be exposed too. In addition to the internal controls, the accounting practices of the Borough needs to be more accurate as outlined in the following report.

If there are any requests to meet on the aforementioned financial review, I will be happy to review the same.

Sincerely,

Frederick C. Ebenau, CMFO

C: Matthew Doherty, Acting Borough Administrator
Jeanette Larrison, Chief Financial Office

Financial Review of the Borough of Bradley Beach

A Financial Review Report is a document that provides an overview of an organization's financial performance and position. The purpose of these financial reports is to communicate the organization's financial health, which is essential for decision-making. In preparing this report, I have examined various relevant financial statements, including balance sheets, income statements, budget status reports, in addition to Audit Reports, Annual Financial Statements (AFS), Adopted Municipal Budgets, and Annual Debt Statements. Through a thorough review and analysis of the data, I have identified trends, variances, and key performance indicators. The objective of this report is to present the findings in a clear manner, highlighting key points.

Overview

I would like to begin my report of the financial review with two (2) significant findings, one is the inconsistency in the accounting as it relates to the flowing of the books and records to the Annual Financial Statements and Audits and the other is the use of Interfunds as detailed below.

CONCERN #1: In reviewing the books and financial records of the Borough, in particular, the General Ledgers, Budget Status Reports and all of the subsidiary ledgers from the Edmunds Financial Software used by the Borough to the Annual Financial Statements and the Audits, each of which should be consistent in balances one to the next. While there is some different information in each, the bottom-line numbers should flow between all three documents.

In my review of the same, it was like looking at three (3) separate sets of books each year which were totally inconsistent with one another. The amounts on the Borough's financial software should flow through the Annual Financial Statement then to the Audit, which has not been the case since 2020.

CONCERN #2: The other significant observation is the misuse of interfunds. An interfund is a loan between one fund and another and must be paid back prior to the year end. This has not been the case and has been a consistent issue during the scope of my review starting with 2019 and continuing through 2024. When interfunds are not liquidated at the end of the year, it will restrict the use of the cash surplus which can be used in the following years budget.

The above concerns are highlighted in the following observations. Both of these issues are the main reasons for audit reports not being done in a timely manner and why they have been so long in being prepared by the auditor.

Review of Audit Reports and Annual Financial Statements

In comparison with Annual Statements vs. Audit Reports for the years 2019 through 2022, a summary of the following has been found:

In review of 2019:

The 2019 Audit Report revealed the bank reconciliations for the three (3) operating funds of the Borough, presented for audit, were not in agreement with the general ledger for those funds. This

is a common theme with subsequent Audits, Annual Financial Statements and the General Ledgers on the Edmunds financial software the Borough uses for the general ledger, subsidiary ledgers and various reports, such as Budget Status Reports.

In review of 2020:

The 2020 Audit Report revealed a larger fund Balance in the Audit than on the Annual Financial Statement, the main difference is an overstated payable for School Taxes on the AFS: \$889,470.00 on the AFS and \$217,470.00 on the Audit. There is a constant trend of extreme changes in the Audit Reports vs. the AFS's in each of the Audits and AFS's reviewed for all of the years reviewed. There is also a consistency of Interfunds on the Balance Sheets of all of the years reviewed which should be liquidated before the end of each year. There were also nine (9) new Audit Findings and Recommendations in the 2020 Audit.

In review of 2021:

The 2021 Audit Report vs. 2021 AFS had varied differences in balances but not as extreme as in previous years, however, the amount of Interfunds not being liquidated was still an issue with several of the funds additionally the Interfunds shown in the AFS differ from amounts shown in the Audit. There is also a large difference shown in the Fund Balance (Surplus) in the Annual Financial Statement and the Audits across all of the years, see the Fund Balance Analysis below. There was also sufficient cash to have liquidated the interfund prior to the end of each of the fiscal year ends. There is also a significant difference in the Cash amounts at the year end with the AFS Cash showing \$4,629,299.38 and the Audit showing \$2,508,772.76 in the Current Fund. While not as large of differences, there a similar Cash and Fund Balances which differ from the Audit as well. There are also Clearing Account which were not cleared at the year end.

In review of 2022:

- There was a deficit in revenues amounting to \$25,618.64.
- All of the fund balances decreased in 2022
- The Beach Utility used more surplus than it generated. The fees should be reevaluated, and the allocations should be further reviewed for proper allocation.
- Much of the General Capital Fund Surplus (\$160,000.00) was used in the Current Fund to reduce property taxes.
- \$50,000.00 of the \$51,243.94 of the Sewer Capital Fund Balance (surplus) was used in the Sewer Operating Fund. The concern here is that the Sewer Operating Fund is not self-liquidating without the use of Fund Balance (surplus) from the Sewer Capital Fund. Sewer user fees and miscellaneous such as interest should be able to cover the expenses without the reliance of surplus from another fund. Additionally, the Sewer Capital Fund Balance has been depleted. It is important to maintain a health Fund Balance in all funds for purposes of unforeseen expenses, down payment funds for capital projects, capital purchases without going out to bond as examples.
- Used most of the Sewer Capital Surplus (\$50,000.00) in the Sewer Operating Budget.
- Dedicated By Riders were used without the approval of the Division of Local Government Services
- Among other concerns, the 2022 Audit revealed was a "Reserve for Clearing Accounts" which are "overdrafts" of bank accounts in the amount of \$155,402.79; and a "Miscellaneous Revenue" line item in the amount of \$75,579.63 which is unaccounted cash

which was the result of the bank balance was less than the general ledger. These two amounts total \$230,982.42 which is a drain on the Fund Balance (Surplus).

- The audit report also shows a loss of \$965,333.01 in Fund Balance in 2022. Ideally, the Fund Balance used in the budget should regenerate itself to the amount used in the budget and ideally be increased.
- The 2022 Audit has sixteen (16) Audit Findings of which eight (8) of the comments were yet to be resolved from the 2021 Audit Findings. Adjusting journal entries on the books and records to coincide with the audit were not completed. There remain a number of audit findings which have yet to be addressed, and a number of audit findings are repeated findings in multiple years.
- As in prior years, there are extreme differences in the 2022 Audit vs. the 2022 Annual Financial Statement. Please see the below comparison between the Audit and Annual Financial Statement as an example in amounts of Cash and Fund Balance in the Current Fund. They are as follows:

	<u>Audit</u>	<u>Annual Financial Statement</u>
- Cash	\$4,002,490.65	\$7,207,417.65
- Fund Balance	\$1,895,954.26	\$2,649,044.39

Differences can happen between the audit and the annual financial statement but should not happen to this degree.

Current Fund

- The General Ledger is not in balance (Debits do not equal Credits).
- There are large interfunds which should have been liquidated.
- There are several Miscellaneous Revenues Not Anticipated (MRNA) which could have been Miscellaneous Revenues Anticipated to lower the taxes.
- Two of the Salary and Wage accounts are overexpended A resolution to transfer funds prior to the end of the year should have been made to cover the overexpenditure.

Sewer Operating Fund

- There is a large Interfund due from the Sewer Capital Fund in the amount of \$2,340,090.99

General Capital

- There are balances in several Capital Accounts from 2006, these balances should be reviewed and either cancelled or reappropriated.

Sewer Capital Fund

- There is an overexpenditure of \$7,700 from 2006 which should be funded, and other balances should be reviewed and either cancelled or reappropriated.

In review of 2023:

- The 2023 Audit was recently received, and can now be utilized to correct the 2023, 2024 and 2025 balances on all of the ledgers.
- The Current Fund Balance was not fully replenished, resulting in a reduction of \$530,564.22.
- The 2023 Audit has eleven (11) comments and recommendations, nine (9) of which are prior year recommendations which were not resolved by December 31, 2023.

Other Operations:

Trust Funds

- The Recreation Trust fund was not found on the 2021 Annual Financial Statement.
- There is a Reserve for Miscellaneous. Miscellaneous is not a Dedication-by-Rider and should not exist.
- There are 33 Trust Funds and only 30 are approved Trust Funds by the Division of Local Government Services. Resolutions should be made to establish the Trust Fund.
- The ending balance shown on the Annual Financial Statement for the Escrow Trust is \$98,419.47 and the Opening Balance for the next year is \$91,996.91
- There are Payroll Interfunds which need to be liquidated. The Payroll Fund should be a zero balanced account.
- The Payroll Account balances need to be cleaned up.
- Tax Sale Premiums should be checked to ensure there are no premiums on the books for five (5) years or longer, and if there are, they should be cancelled to surplus.
- Dedication-by-Riders should be reviewed, and resolutions should be passed to have them approved by the Division of Local Government Services.

Additional Concerns to be Addressed:

- There do not appear to be any Management Letters from the auditors in any of the years examined. A management letter details other findings and recommendations the auditor may have come across in the preparation of the audit which should come to management’s attention. A Management Letter should be requested by management to the auditor and reviewed at the exit conference of the audit.
- In accordance with the Annual Financial Statements, there have been as many as 53 bank accounts used by the Borough at one time, a breakdown is as follows:

<u>Bank</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
o Provident Bank	0	0	32	23
o PNC Bank	29	29	14	15
o Kearney Bank	<u>6</u>	<u>6</u>	<u>7</u>	<u>6</u>
Total Bank Accounts	35	35	53	44

- o In addition to the 14 bank accounts at PNC Bank, an additional 26 “open” accounts – mostly with zero balances have been found and closed.
 - o Many of the bank accounts had very low balances, as little as .01 which the Borough has been paying bank fees on until this was discovered in May 2025. These bank accounts should be analyzed and consolidated where possible.
- The Current Fund Balance Sheet in the Edmunds system does not balance in the years 2022 and 2024. Debits should equal credits and they do not. This is very concerning and needs further investigation as to how and why the general ledger does not balance. The 2022 amount is off by \$130,361.65 and the 2024 amount of off by \$54,670.96. General Ledgers should balance at all times.
- The books are not closed on a timely basis.
- The 2023 audit was not completed until 2025; and the 2022 Audit was not completed until 2024. This is not a negative reflection on the auditor, as evidenced in the way the accounting ledgers have been handled.
- The Annual Financial Statement was not completed for 2024 in a timely manner due to

- changes in Chief Financial Officers and the aforementioned conditional of the ledgers.
- December 31, 2023, ending balances reported on the Annual Financial Statement do not agree with the beginning balances in the Edmunds System.
 - Each of the Capital Funds should be reviewed for cancellation or reallocation of authorizations which can be used for updated projects.
 - On a good note, in review of the Percentage of Collection for the years from 2018 through 2024, the tax collections are consistently high ranging from a low of 98.44% in 2019 to a high of 99.01% of 2021, this is mainly due to the annual Accelerated Tax Sale.
 - Many of the Interfund Balances shown on the books of record do not show on the Annual Financial Statement or the Audit Report and appear to be consolidated with the cash amounts shown in the AFS and Audit. Cash is liquid and interfunds are accounts receivable (monies due to a fund) and the two should never be combined as cash. Additionally, when cash is available, the interfunds should be liquidated.
 - There are a number of old Municipal Alliances Grant balances on the books which due to time lapses will not be collected should be cancelled by resolution. Old Grant reserves and receivables should be used or cancelled.
 - There are Public Assistance Trust Funds still on the books which should have been liquidated decades ago.
 - The Borough runs very close to the 50% maximum of Deferred School Taxes; this should be carefully watched in order to not exceed the 50% causing an undo tax increase.
 - There are a number of Revenues realized in the Current Fund which were taken into Miscellaneous Revenues Not Anticipated (MRNA) which should be anticipated as Miscellaneous Revenues in the budget to keep taxes down.
 - All interfunds should be liquidated prior to the year end. In many cases, there is sufficient cash to liquidate the interfunds.
 - In review of the Fund Balances (Surplus) in the years 2019 through 2022, there are large deviations as shown below:

<u>Year</u>	<u>Audit</u>	<u>AFS</u>	<u>Difference</u>
2019	\$1,851,968.65	\$2,129,845.39	(\$277,876.74)
2020	\$2,854,162.46	\$2,088,535.86	\$765,626.60
2021	\$2,854,162.46	\$3,003,526.13	(\$149,363.67)
2022	\$1,895,954.26	\$2,649,044.39	(\$753,090.13)

Fund Balances that are not properly recorded and depended upon can create budget deficits and cash flow issues in adopted budgets.

Conclusion

It is suggested all financial processes are periodically reviewed to ensure accounting and auditing requirements related to internal control are in order. Bank reconciliations should also be made in a timely manner. Cross training should be considered as part of the review. This review may be helpful in times of transition, in periods of long absences of management and clerical employees and in the ever-changing business technological environment.

It appears the ledger balances have not been reconciled with the audited financial statements and as aforementioned, there are great disparities between the financial software used by the Borough

compared to the unaudited financial statements (Annual Financial Statement) and the audited financial statements prepared by the auditor.

Interfunds are very concerning with the amounts shown on the general ledgers and the financial statements, especially the combining of cash along with the interfund as shown in the audit report. All interfunds should be liquidated by the end of the year.

Across all of the years examined, there is a consistency of bad record keeping and books grossly disagreeing with both the audited and unaudited financial statements. As a result of this, it is very difficult for a governing body to make an informed decision on financial matters including the introduction and adoption of the annual budget. The deficiency in internal controls over financial reporting is a material weakness relative to the maintenance of complete and accurate general ledgers on a timely basis. Internal control and a proper set of books along with accurate financial reporting allows management to make educated and timely decisions, especially in the budget process.

I can go further into greater detail to the errors in the record, but this report would be voluminous, please see a report as a sampling of findings of the books and records labeled Exhibit A entitled:

**Comparison of Differences between the AFS and the Books of Record (Edmunds)
In the Current Fund at both Year End and the next year Beginning Balance**

This Appendix provides a snapshot of the Current Fund ending balance on December 31, 2023, and the beginning balance on January 1, 2024, these amounts should be identical.

It is further understood that the former governing body and the former Mayor did not coordinate financial data to make an educated decision on the previous year's budget whereas members of the then governing body were fined by the Director of the Division of Local Government Services for not introducing a budget in a timely manner. From my observation, this is no longer the case. It is critical to share financial information as requested by a governing body when requested to do so in order that a proper budget gets introduced and adopted in a timely manner.

I believe that all of the errors in financial controls and reporting found and noted in this report along with the many other issues not reported in this report, can be resolved with the perseverance of good accounting policies and procedures along with stronger internal controls and a better check and balance approach. Additionally, the most recent audited financial statements (Audit) should be used to correct all of the beginning balances for 2024, and the appropriate corrections be made in 2024 and followed through to the 2025 beginning balances. Liquidation of all of the interfunds and a review of the various Capital Funds for utilization, cancellation or reallocation by amending and/or supplementing the existing Capital Bond Ordinances should also be completed.

Thank you for allowing me to bring to light some of the issues and concerns which have been going on for the indicated past several years. If you should have any questions or would like to go into more detail on the findings and recommendations of this report, please do not hesitate to

contact me to meet and discuss the same.

Respectfully Submitted,

Frederick C. Ebenau, CMFO

Exhibit A

Borough of Bradley Beach
Comparison of Differences between the AFS and the Books of Record (Edmunds)
In the Current Fund at both Year End and the next year Beginning Balance

Description	AFS at 12/31/23	Edmunds at 1/1/24	Difference
Cash	\$ 3,996,674.93	\$ 3,097,327.82	\$ 899,347.11
Due from Federal/State	(109,303.84)	(150,694.42)	41,390.58
Revenue Account Receivable	-	3,774.48	(3,774.48)
Due from Public Assistance	107.24	11.35	95.89
Due from Beach Capital	-	1,002,684.59	(1,002,684.59)
Due from Sewer Capital	-	1,322,390.53	(1,322,390.53)
Due from Payroll Account	-	1,501,414.41	(1,501,414.41)
Due from Escrow Trust	-	21,252.10	(21,252.10)
Due from POAA	-	2,513.27	(2,513.27)
Due from Tourism	-	55,528.30	(55,528.30)
Due from Unemployment	-	(134,694.45)	134,694.45
Due from General Capital	-	281,240.68	(281,240.68)
Due from Trust Other	-	12,880.79	(12,880.79)
Due from Beach Operations	-	3,464,214.94	(3,464,214.94)
Due from Clearing	-	180,993.00	(180,993.00)
Various Reserves	(341,597.99)	(196,068.64)	(145,529.35)
Reserve for Municipal Relief Funds	(37,059.14)	-	(37,059.14)
Reserve for Receivables	(332,544.44)	(240,622.78)	(91,921.66)
Fund Balance	(1,314,152.84)	(795,309.26)	(518,843.58)
Operations	-	(324,208.41)	324,208.41

Notes:

- 1) The ending balance at the year-end should be the same as the beginning balance of the next year.
- 2) The Public Trust has not been in existence for over 25 years; therefore, the balance should be cancelled.
- 3) AFS - Annual Financial Statement