

March 25, 2026

Delivered via email only to [dpandolfo@hcstonline.org](mailto:dpandolfo@hcstonline.org)

John Minella, Board President and Members of the Board  
Hudson Schools of Technology  
Frank J. Gargiulo Center  
1 High Tech Way  
Secaucus, New Jersey 07094

**Re: Preliminary Findings of Forensic Investigation of the Hudson County Schools of Technology (“HCST”)**

Dear Mr. Minella:

In January of 2026 the Hudson County Schools of Technology (“HCST” or the “District”) engaged PKF O’Connor Davies Advisory, LLC (“PKFOD”) to perform a forensic investigation of the accounting and finance department at HCST for the fiscal years ending June 30, 2022, 2023, 2024 and 2025 (the “Period”) and report those findings to you and HCST.

We are presenting our preliminary findings in this Report and are planning a presentation to the board members of HCST of our findings during the month of March. Our presentation will be on the Board of HCST on March 19, 2026. At the time of our presentation, we will discuss with you and the Board members of HCST as to the timing of a public presentation.

We interviewed over 23 employees of the District and the current auditors. We received complete cooperation from the employees, the Superintendent, Acting Business Administrator, Assistant School Business Administrator and Senior Accountant. The District provided PKFOD with access to the accounting system (System 3000) as well as the paid vendor invoices, current employment contracts and current contracts for the four collective bargaining units. All members of the HCST accounting and finance department worked with PKFOD to acquire information requested from vendors and other government agencies that were used in our analysis.

We requested to speak with the former Superintendent, but because of conflicts of interest, her legal counsel advised their client to only respond to questions in writing. We determined that this was neither efficient nor effective and did not accept the offer. We have not spoken with the former Board Secretary nor the former Business Administrator as of the date of this Report. The former Board Secretary currently has on-going litigation against the District.

Throughout this Report, we discuss the areas of the District’s operations that require additional investigation as well as recommendations to correct the issues that we observed. During our investigation, several of our recommendations have either already been implemented by the District or are in the process of being implemented.

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In our opinion, based on the information, observations, analysis and calculations described below – as well as our education, expertise, skill, training, experience and knowledge – we made the following observations:

- As of the most recent financial audit (June 30, 2025)<sup>1</sup> the District has a deficit on the budgetary basis of (\$3,642,070) and on a GAAP<sup>2</sup> basis of (\$5,959,054).<sup>3</sup>
- The District is anticipating that the budget for the fiscal year ending June 30, 2026 (“Current Year”) was not prepared adequately and did not capture all the operational needs of the District and, as a result, the District has requested additional support from the State of New Jersey and Hudson County of more than approximately \$12 million.
- As of the date of this Report the State of New Jersey has provided funding in excess of \$10 million for the current fiscal year and the request to Hudson County is still pending approval. This deficit is the direct result of the systemic failure of the accounting and finance department to budget appropriately for the District’s operating expenses during the Period.
- The table below is for the fiscal years 2019 to 2025. The table shows that from 2019 to 2022 the District was able to spend less than it raised and increased the amount added to fund balance (aka surplus). In 2023 this changed and the operations, on annual basis, started to lose money until the cumulative amount in fiscal year 2025 reversed and became negative.

<b>Fiscal Year End</b>	<b>Excess (deficiency) of revenues over (under) expenditures - Year to Year</b>	<b>Cummaltive Total (2019 and Forward)</b>
2019	355,251	
2020	1,466,281	1,821,532
2021	2,672,389	4,493,921
2022	1,987,983	6,481,904
2023	(244,434)	6,237,470
2024	(4,203,027)	2,034,443
2025	(5,786,995)	(3,752,552)

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<sup>1</sup> Issued on January 14, 2026 by the independent audit firm of Donohue, Gironde, Doria & Tomkins, LLC.

<sup>2</sup> GAAP – Generally Accepted Accounting Principles.

<sup>3</sup> GAAP basis accounting does not allow the recognition of last two state aid payments, but they are allowed for the budgetary basis of accounting. This is why the deficit is less under the budgetary basis of accounting.

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- HCST is currently projecting that June 30, 2026 deficit is anticipated to increase by \$1,718,692 to a cumulative amount of \$5,360,763. The deficit may change if the County is able to provide additional funding or approximately \$2.5 million which will help reduce the deficit but not complete eliminate it.
- The Board Secretary Report did not accurately reflect the outstanding accounts payable obligations of the District as of June 30, 2025 and that of other months during the Period potentially misleading the Board. We are unaware of any communications from the prior Business Administrator and the Board Secretary to Board Members about the growing number of unpaid invoices to the State of New Jersey for health insurance and the District’s health insurance premiums.
- The June 30, 2025 Auditor’s Management Report (“AMR”) and in Exhibit K-6 “Schedules of Findings and Questioned Costs” in the Annual Comprehensive Financial Report (“ACFR”) indicated in the following finding 2025-01 “*Material Weakness in Internal Controls over Financial Reporting and Noncompliance*”:

Management is not properly accruing expenditures and obligations, nor performing closing procedures timely, nor regularly, for accurate and complete budget to actual reporting. Material adjustments resulting from independent audit are resulting in expenditures without sufficient budget appropriations or over-expenditures. Management is over-riding internal controls by transferring expenditures among budget line items with unsupported manual adjustments. This finding is repeated from prior year.

Management’s failures required the recording of approximately \$4,247,051 in unpaid State of New Jersey Health Benefit Plan (“SHBP”) invoices, resulting in an over-expenditure and contributing to the deficit.

In addition to the above, there were two months’ worth of utilities bills in 2025 fiscal year that had not been recorded totaling \$392,576.

Given the material amount of unrecorded expenditures, it is impossible to see how any of the Board Secretary Report’s for March, April, May and June of 2025 could have accurately portrayed the financial health of HCST.

- The internal controls that District had in place during the Period were being circumvented at the request of the former Business Administrator.<sup>4</sup> Invoices for goods and services that had been incurred by the District were not entered into the accounting system. During our

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<sup>4</sup> During the Period of our investigation the Business Administrator recently retired from the District effective on Friday February 27, 2026. From approximately August 2026 until the end of February 2026 the former Business Administrator was on a sabbatical as per his employment contract (optional pending approval) with the District and did not participate with our investigation.

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interview process staff repeatedly expressed similar observations, that they were consistently told not to enter certain invoices (utilities and health insurance) into the system because there was not enough cash to pay the bills. This is self-evident by the audit comment 2025-01 and that HCST continued this practice into August of 2026 before the former BA went on sabbatical. These practices significantly impaired the ability of the Board to make sound financial decisions.

- As a result of these practices, the District did not record expenditures and related obligations of \$4,247,051 to the SHBP as of June 30, 2025 which has grown through January 1, 2026 to be more than \$11million (inclusive of interest).
- The building and grounds, transportation and food service departments are repeatedly failing to adhere to the District’s protocol for purchases of goods and services during the fiscal year, resulting in over-expenditure of budget line items and the constant need to transfer funds to cover shortfalls in the budget<sup>5</sup>. During our interview process with the department heads they repeated the same mantra “... *this is how we were told to do it...*” and “... *this is how it has always been done ...*”.

A common example given during the interview process was a “partial Purchase Order” would be issued at the beginning of the year for a low or small amount and as the fiscal year progressed the department(s) would spend additional monies. Those additional spends were more than the Purchase Order approved amount and the “partial Purchase Order” would have to be increased after the goods or services had been ordered or completed. This forced the accounting and finance department to have to transfer monies from other budget line items in order to pay the invoices. In addition to being a practice that creates issues with budgeting it also allowed services from various vendors to exceed the threshold for bids. During the interviews, the department heads discussed that it was a common practice to use a “partial Purchase Order” to avoid the bid threshold. This practice extended beyond the departments discussed above but was prevalent in these departments because of the nature of their expenditure.

- Failing to properly use the purchase order system, the District has created over-expenditure and prevented the administration and the Board from making decisions with complete and accurate financial information. The constant transferring of monies in fiscal year 2024 worsened in 2025 and continued into 2026. The examples are so significant that we could not include a complete list in our Report. HCST practice of “...*ordering and then finding the money...*” was prevalent and common that during the interviews. Almost every interviewee was aware of the practice. We have discussed with the Administration, and the Department heads, that this practice must stop and we witnessed firsthand invoices being denied and Department heads being told to return the goods, when possible. The Department heads are compiling as of now with the correct practice.
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<sup>5</sup> We have met with the department heads during our investigation and discussed with them and their staff members the changes that need to be implemented immediately regarding purchasing.

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- During various fiscal years we identified where expenditures were incorrectly charged to an unrelated line item because the line item had available funds and a transfer would therefore not be necessary. This practice is in the process of being corrected.
- HCST’s current accounting system (System 3000) is more than sufficient to provide the district with accurate financial information that can assist the Board and the Administration. Based on our investigation, it appears that prior Administration either did not understand accounting and financing for government agencies or willfully ignored the correct procedures.
- It is highly unusual to see the role of the Business Administrator and Board Secretary separated. In fact, in a recent survey of all 21 county vocational schools in New Jersey, only 2 have separated the role of Board Secretary and Business Administrator. Essex County was one and Hudson County the other. The roles are overlapping and the responsibilities differ slightly. In the case of HCST, separating the roles did not increase the financial transparency, did not save the district money, did not increase board awareness on the financial distress, did not provide for accurate budgets and failed the public. Currently, HCST has moved the role of the Board Secretary to a Board member who has volunteered.
- The table below compares the actual salaries for the fiscal years 2019 through 2025 versus the original budget and the dollar amount of variance along with the percentage. During that time period, the initial salaries were underbudgeted every year except for 2021. For the entire period, the salaries were underbudgeted by 5.46% overall or approximately \$14.6 million dollars:

	Actual Grand Total - Salaries	Original Budget Total - Salaries	Variance between Original Budget and Actual	% of Variance
Fiscal Year 2019	\$ 37,862,273	\$ 33,782,000	\$ (4,080,273)	-12.08%
Fiscal Year 2020	\$ 39,602,574	\$ 35,988,000	\$ (3,614,574)	-10.04%
Fiscal Year 2021	\$ 37,962,420	\$ 38,280,000	\$ 317,580	0.83%
Fiscal Year 2022	\$ 41,413,670	\$ 39,927,248	\$ (1,486,422)	-3.72%
Fiscal Year 2023	\$ 40,890,711	\$ 39,624,000	\$ (1,266,711)	-3.20%
Fiscal Year 2024	\$ 44,092,613	\$ 41,441,800	\$ (2,650,813)	-6.40%
Fiscal Year 2025	\$ 45,604,959	\$ 43,499,000	\$ (2,105,959)	-4.84%
<b>Total</b>	<b>\$ 287,429,220</b>	<b>\$ 272,542,048</b>	<b>\$ (14,887,172)</b>	<b>-5.46%</b>

The budget shortfalls were covered in earlier years by the surplus and additionally by any surplus created during the year 2019 through 2023. From 2020 through 2022 school districts received significant funds as a result of CoVid. By 2024 and 2025 no surplus existed to cover the shortfall. The budget for 2026 does not accurately reflect the expenditures necessary to operate the HCST.

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It is anticipated that the operating deficit will increase in 2026 even with the infusion of resources from the State of New Jersey.

- The budgets submitted for approval failed to provide for the repeated operating deficits in the Food Service Program (aka Cafeteria) and the Transportation Consortium. These operating deficits drained any surplus/fund balance. The District is allowed to budget for these shortfalls from operations and currently plans to budget for the short fall in their 2026 – 2027 budget.
- For the fiscal year ending June 30, 2025 the Food Service had an operating deficit of \$493,323. For the fiscal years ending June 30, 2024 and 2023 the operating deficit covered by the general fund’s surplus was \$647,908 and \$301,768 respectively. There is a projected operating deficit of more than \$1million in Food Service for fiscal year 2026. We recommend a more detailed review of the accounting costs between the Food Service (aka Cafeteria) and the Culinary Arts Program. During our interview with Food Service personnel, it was repeated that “... *just worry about the food cost...*” and there was no requirement to review or be held accountable for the result of operations including labor costs. Currently we are not aware of any reasonable or practical reasons why the Food Service department was given this guidance. Our analysis indicates that once salaries (without benefits) and food costs are allocated, the operating deficit in Food Service is going to exceed \$2million. The previous financial statements were misleading regarding the true cost of operating Food Service because salaries were not included.
- The operating deficit in the internal service fund (aka Transportation Consortium), which had to be covered by the general fund’s surplus and was not appropriately budgeted for, was \$991,340 in the most recent fiscal year ending June 30, 2025 and totaled in excess of \$1.5million for the fiscal years 2022 through 2024. During our interviews we constantly heard that “... *transportation makes money...* There is no indication in any of the financial statements that the Transportation Consortium was breaking even. Using actual costs, the transportation consortium is expected to generate a deficit of approximately \$4,700,000. During the interviews the employees appeared to be in disbelief over the shortfall.
- The operating deficit in the Transportation Consortium at a minimum need to be budgeted for and requires further investigation to determine if the services being performed through the Transportation Consortium are accurately being charged to the respective outside entities. During our interview, it was discussed that concerns exist that labor was not being charged to the respective outside entities whose vehicles were being serviced, yet HCST was paying overtime to service/repair these vehicles. In addition, it appears that there are significant internal control deficiencies.
- During our interviews and investigation of the Transportation department, concerns were raised regarding the process of charging customers for both labor and parts. Resolutions were historically based by the Board of HCST (June 16, 2022 (#4.7) and June 20, 2024 (#4.6)) that provided for an hourly rate for school bus maintenance and repair services for

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the following organization – North Bergen Board of Education, North Hudson Community Action Corporation, and the Town of Guttenberg. A sample of invoices from fiscal year 2025 indicates that labor was tracked and charged on internal work order but was left off the invoices sent to these organizations. For example:

- Invoice #19-1296 to the Town of Guttenberg for \$657.51 includes the parts but does not include 10 hours of labor.
- Invoice #19-1156 to North Hudson Community Action Corp. for \$814.92 includes parts but does not include 15 hours of labor.
- Invoice #19-1262 to North Bergen Board of Education for \$1,472.44 includes parts but does not include 12 hours of labor.

We have not reviewed all the invoices to see how prevalent of a practice this may have been during the Period. Additionally, as of the date of our Report, we are unaware if this practice was isolated to these three organizations. Our recommendations are to either charge the correct labor per the Resolutions, pass a resolution indicating that labor will not be charged, or cancel the practice of providing maintenance to other organizations. A more comprehensive review is necessary as we are currently unable to determine how much this practice of not charging labor but paying the labor cost contributed to the deficit in the Transportation Consortium.

- Historically the budget for health insurance premium was over budgeted. Often the excess budget was the employee contribution per the collective bargaining agreements and the State of NJ statue commonly referred to as Chapter 78 (P.L. 2011, c. 78). Employees contribute a portion (scaling percentage) of the health insurance premium based on a function of their salaries. See the table below which are the gross health insurance premiums budgeted vs actual.

**Health Insurance through NJ State Health Benefit Program**

Year	Original Budget	Year to Year % Change	Actual	Year to Year % Change	Final Budget	Year to Year % Change	Fiscal Year Average Health Insurance Premium % Change for all plan types
2018-2019	\$ 10,750,000		\$ 9,158,117		\$ 9,158,117		
2019-2020	\$ 11,148,438	3.71%	\$ 8,119,265	-11.34%	\$ 8,119,265	-11.34%	
2020-2021	\$ 11,350,000	1.81%	\$ 7,464,898	-8.06%	\$ 10,758,233	32.50%	
2021-2022	\$ 11,344,000	-0.05%	\$ 6,246,203	-16.33%	\$ 8,921,879	-17.07%	
2022-2023	\$ 11,450,000	0.93%	\$ 8,386,176	34.26%	\$ 9,651,010	8.17%	5.82%
2023-2024	\$ 12,125,000	5.90%	\$ 11,038,055	31.62%	\$ 9,142,135	-5.27%	10.52%
2024-2025	\$ 12,350,001	1.86%	\$ 13,415,827	21.54%	\$ 11,064,697	21.03%	12.89%
2025-2026*	\$ 13,750,000	11.34%			\$ 13,750,000	24.27%	25.54%

**Notes**

	Contractually employee % contributions of the health insurance premium frozen
	Health insurance premiums flat or declined
	District left NJHBP on January 2026. After the 2025/2026 Budget were prepared the District left the NJHBP and the estimated actual increase for the remaining 5 months of the 2025/2026 fiscal year is 22.14%

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- The problem of the double digit increase in health insurance premiums was exasperated by the fact that all employees had their contribution percentage frozen at the 2019 contribution level. As their wages increased because of contractual commitments for step increases, longevity increases and lateral moves on the salary guide for additional college credits, the amount of the percentage contribution was frozen. Therefore, the increased health insurance premium disproportionately fell onto the District to fund, thereby decreasing the built-in “cushion” in the annual budget to be used to cover shortfalls in the salary expenditures.

The table below illustrates the economic impact that this contractual item has to HCST and the employee:

Example of impact on district finances by freezing employee contribution %

	Fiscal Year End									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>BA (Bachelor of Arts) - Instructional</b>										
<i>Per Salary Guide from Current and Prior Contract</i>										
Step 8	\$ 56,206									
Step 9		\$ 57,836								
Step 10			\$ 59,513							
Step 11				\$ 61,358						
Step 12					\$ 63,760					
Step 13						\$ 67,267				
Step 14							\$ 70,966			
Step 15								\$ 73,734		
Step 16									\$ 75,504	
Step 17										\$ 77,316
Longevity %	7.00%	7.00%	12.00%	12.00%	12.00%	12.00%	12.00%	14.00%	14.00%	14.00%
Pensionable Salary	\$ 60,140	\$ 61,885	\$ 66,655	\$ 68,721	\$ 71,411	\$ 75,339	\$ 79,482	\$ 84,057	\$ 86,075	\$ 88,140
Chapter 78% frozen in 2019	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%
Per Chapter 78 Matrix - employee contribution %	17.00%	17.00%	19.00%	19.00%	22.00%	23.00%	23.00%	24.00%	26.00%	26.00%
Difference in Health Insurance Premium % Contribution from Employee	0.00%	0.00%	2.00%	2.00%	5.00%	6.00%	6.00%	7.00%	9.00%	9.00%
Estimated Annual Health Insurance Premium - Family (Direct 10 and predecessor pla	N/A	\$ 29,800	\$ 34,564	\$ 34,376	\$ 39,774	\$ 44,449	\$ 54,371	\$ 74,622	\$ 82,084	\$ 90,292
<i>Increased for 2027 and 2028 by 10% per annum (actual CAGR from 2020 to 2026 was 16.5%)</i>										
Additional value to Employee that District has to cover cost	N/A	\$ -	\$ 691	\$ 688	\$ 1,989	\$ 2,667	\$ 3,262	\$ 5,224	\$ 7,388	\$ 8,126
Total additional value to employee during 2019 to 2028										\$ 30,034.09

By 2028 this sample employee will cause HCST to have to contribute approximately an additional \$8,126 to their health insurance versus if HCST kept adhering to the Chapter 78 matrix. We found no evidence that any cost-out of the impact of this negotiation was ever prepared. By providing this benefit, HCST effectively provided a substantial benefit to the employee without increasing the gross base salary. While this can be viewed as being cost effective because it did not require an increase to the pensionable salary during the contract life, the unintended consequence is that the employee is receiving a net benefit that exceeds that of their peers.

- School districts throughout New Jersey that are in the State Health Benefit Program are at a huge disadvantage during hyperinflation periods. The District’s budget for their next fiscal year is due by mid - March and is finalized by the end of March. Participants in the SHBP (the plans are on a calendar year) may become aware of their next calendar year premiums until November/December time period which forces the District to have estimate the last six months (January to June) of their fiscal year. The table on the next page shows how costly the plans became in the last few years with significant increases that were unprecedented and impossible to budget for accurately.

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Year	Plan	Plan Coverage							
		Single	Member & Spouse/Partner	Family	Parent & Child	Single	Member & Spouse/Partner	Family	Parent & Child
2023/2024	NJ Direct 10	\$ 14,724.30	\$ 29,448.66	\$ 42,111.48	\$ 27,387.18	13.59%	13.59%	13.59%	13.59%
2023/2024	NJ Direct 15	\$ 14,112.54	\$ 28,225.08	\$ 40,361.94	\$ 26,249.34	13.77%	13.77%	13.77%	13.77%
2023/2024	NJ Educators Health Plan	\$ 12,451.20	\$ 24,902.40	\$ 35,610.36	\$ 23,159.16	8.47%	8.47%	8.47%	8.47%
2023/2024	Garden State Health Plan	\$ 10,532.10	\$ 21,064.14	\$ 30,121.74	\$ 19,589.64	6.25%	6.25%	6.25%	6.25%
	Average	\$ 12,955.04	\$ 25,910.07	\$ 37,051.38	\$ 24,096.33	10.52%	10.52%	10.52%	10.52%
2024/2025	NJ Direct 10	\$ 17,276.28	\$ 34,552.62	\$ 49,410.12	\$ 32,135.04	17.33%	17.33%	17.33%	17.34%
2024/2025	NJ Direct 15	\$ 16,575.42	\$ 33,150.96	\$ 47,405.82	\$ 30,830.34	17.45%	17.45%	17.45%	17.45%
2024/2025	NJ Educators Health Plan	\$ 13,199.76	\$ 26,399.46	\$ 37,751.22	\$ 24,551.46	6.01%	6.01%	6.01%	6.01%
2024/2025	Garden State Health Plan	\$ 11,665.56	\$ 23,331.06	\$ 33,363.42	\$ 21,697.86	10.76%	10.76%	10.76%	10.76%
	Average	\$ 14,679.26	\$ 29,358.53	\$ 41,982.65	\$ 27,303.68	12.89%	12.89%	12.89%	12.89%
2025/2026	NJ Direct 10	\$ 22,551.12	\$ 45,102.30	\$ 64,496.22	\$ 41,946.30	30.53%	30.53%	30.53%	30.53%
2025/2026	NJ Direct 15	\$ 21,656.10	\$ 43,312.20	\$ 61,936.44	\$ 40,280.34	30.65%	30.65%	30.65%	30.65%
2025/2026	NJ Educators Health Plan	\$ 15,865.14	\$ 31,730.22	\$ 45,374.22	\$ 29,509.08	20.19%	20.19%	20.19%	20.19%
2025/2026	Garden State Health Plan	\$ 14,089.20	\$ 28,178.34	\$ 40,295.04	\$ 26,205.84	20.78%	20.78%	20.78%	20.78%
	Average	\$ 18,540.39	\$ 37,080.77	\$ 53,025.48	\$ 34,485.39	25.54%	25.54%	25.54%	25.54%

- Community Resource Center and/or the Career Development Center (“CRC” or “CDC”) historically provides services to the Hudson County community outside of a traditional high school vocational program. In the past the CRC was able to cover all or most of the salaries and some of the other expenses through various state and federal grants<sup>6</sup>. The funding of approximately \$1,500,000 for certain programs was lost starting in fiscal year 2024. The services that these programs provide to Hudson County are now provided by an unrelated organization. Yet the employees that were a part of this program were not transferred to other departments or let go, instead that majority of the employees continued at CRC. Some employees have been transferred to other departments in the district. As a result, the District has quietly been operating at a significant deficit for a program that no longer exists. If the District wishes to reapply for the previous grant, the District needs to budget for the lost revenue and move the underutilized employees into other positions or other departments and reapply for the grant during the next grant phase, which will be in the 2027/2028 fiscal year. We recommend that HCST starts the process of closing CRC for the 2026/2027 fiscal year.
- During our review and interviews we discussed the budgeting impact of various contractual benefits to existing employees. There are currently four collective bargaining units. The agreements provide for additional benefits such as longevity based on a percentage of base salary, contemporaneous payment of unused sick and vacation days, and other items that are at best the following:
  - Improperly budgeted. Budget for 2024 was underbudgeted by 4.66% 2025 budget was underbudgeted by 4.39% and the projected 2026 budget was underbudgeted by approximately 10.2%.

<sup>6</sup> Such programs included Adult, Youth and Dislocated Worker

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- Potentially violating State of New Jersey statute. Historically employees were “cashing” in unused sick days and vacation days on an annual basis. These “cash-outs” do not appear to have been budgeted. Contributing to the budget issues in fiscal years 2024, 2025 and 2026. We reviewed a certification by an employee that works in the payroll department that an employee requested payment for unused sick days and vacation days for a number of years with the most recent request in 2024 in excess of \$23,000 for sick days and \$23,000 for vacation days.
- Incredibly generous when compared with peer groups. For example:
  - It is more common to see all employees receive between 12 and 15 sick days versus the 25 to 35 that certain employees receive.
  - Vacation days in excess of 20 days.
  - Use of a sauna by employees.
  - Reduced price meals at cafeteria for all employees.
  - Fixed minimum amount of money per fiscal year to be budgeted for tuition reimbursement (approximately \$240,000) versus HCST adjusting amount according to budget needs.
  - Employee contribution towards health care premiums frozen at 2019 contribution percentage (as discussed above).
- HCST management negotiated collective bargaining agreements for which relatives were active members of the union and did not recuse themselves from the negotiations.
- Provide cost out of contract to Board.

If properly budgeted, they should not be problematic but if ignored some components can cause significant problems with the budget. While difficult to address the generous benefits until the next round of contract negotiations we are concerned that there appears to have been very little communication between the administration and the Board during the last round of negotiations, and we, nor the current administration, could find any workpapers that would indicate if a cost-out of the contract was completed. It is possible that after our interviews with the former Board Secretary and former Business Administrator we might find a cost-out of the current contracts.

- We are continuing to review the District’s compliance with state and local public contract laws and have flagged a number of vendors that appear to have failed to follow the prescribed methodology. During previous audits HCST was made aware of the concerns regarding the appearance of the circumventing of Public Contract

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Laws. Based on our interviews we repeatedly heard from department heads that “... *that is the way we always did it*” or “... *spread the contract around.*” When speaking with employees in the transportation and buildings and maintenance, we repeatedly discussed the use of a “partial Purchase Order” amount of \$6,000 versus final aggregated payments to vendors in excess of the state threshold for a request for a quote of a formal bid. Multiple vendors exceed the threshold. For instance, over \$66,000 was paid to a vendor for bagels for Food Service. At the time of our Report, we have not analyzed the financial impact, if any, on the District of the circumvention of these policies and procedures. But there exists the possibility that had proper procedures been followed, expenditure may be less. The District is the process of strengthening the protocols.

- HCST offers programs to the Hudson county community that cost more than initially anticipated. Without substantial support from the County on these endeavors, it becomes impossible to cover these expenses with the current structure of a school-based budget. We advise a comprehensive review of these non-primary programs and accounting that is functional for the Board to review and track or consider moving non-high school vocational programs out of the financial statement purvey of HCST and into a more appropriate organization that is easier to manage, fund and account for the operations and that can report directly to the Hudson County Commissioners and Administration.

HCST has the following programs/services or departments that should be reviewed to determine that either additional revenue can be generated through charging a more accurate amount or requiring payments for uses that in the past were provided at no charge such as the following:

1. Visit the continuation of offering day care services to employees or charge a minimum amount equal to the actual cost to provide the services.
2. Stop offering the use of facilities free of charge. Charge appropriate amount for cost of security, custodial services and food, if provided.
3. Discontinue the Community Resource Center or request full funding from Hudson County.
4. Review the economic viability of offering transportation for a fee to surrounding municipalities as the transportation consortium is costing a significant amount of money.
5. Re-evaluate the offering of Post-Secondary Programs and Adult School Programs.
6. Suspend tuition reimbursement until next contract negotiations.

## **Preliminary Findings of Forensic Investigation of the Hudson County Schools of Technology (“HCST”**

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Our Report is based on certain financial data and narratives referenced herein. We have performed our services according to the standards set forth in the American Institute of Certified Public Accountants (“AICPA”) Statement on Standards for Forensic Services No. 1 (“SSFS 1”). The Firm was engaged by the District to perform forensic investigation services for the period ending June 30, 2022 through June 30, 2025. SSFS is not an audit or accounting review of information for the purpose of expressing an opinion or other form of assurance pursuant to Generally Accepted Auditing Standards or Statements on Standards for Accounting and Review Services. We have, however, analyzed the available data and performed certain procedures and analyses in order to satisfy ourselves as to the reasonableness of the data presented, thus enabling us to form the conclusions and opinions presented herein to a reasonable degree of certainty. Our procedures, comments, schedules, conclusions and opinions are based, in part, upon the analysis and review of the data and documents available to us through the date of this Report.

Richard J. Corcoran III is a Partner in the Litigation, Valuation and Forensic Group and in charge of the engagement on behalf of the Firm. All the opinions, conclusions, comments and remarks contained in this report are those of Richard J. Corcoran III. All references to such words as “I” or “we” or “our” refer to the Firm and therefore Richard J. Corcoran III.

PKF O’Connor Davies, LLP (“LLP”) and Advisory practice in an alternative practice structure in accordance with applicable law, regulations and professional standards. LLP provides attest services to its clients. Advisory is not a registered CPA firm and does not provide audit or attest services. LLP has a contractual arrangement with Advisory, whereby Advisory provides LLP with professional and support personnel to perform professional services on behalf of LLP.

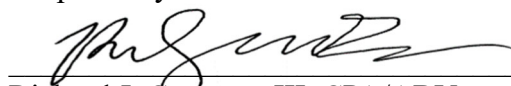
We have no present or contemplated interest in any of the parties involved in this engagement. Our fees for this letter are based on our normal hourly billing rates and in no way contingent upon the results of our findings. We are continuing our investigation and if necessary, will update this Report.

To the best of our knowledge and belief, the statement of facts contained in this Report are true and correct.

This letter is intended to be used for the purposes expressed herein, is to be distributed only in its entirety, and is restricted in its distribution to the parties named. Any other use and/or distribution is strictly prohibited without the written consent of the Firm.

If you have any questions concerning this letter, please contact Richard J. Corcoran III at (973) 535-2880.

Respectfully submitted



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Richard J. Corcoran III, CPA/ABV  
For PKF O’Connor Davies Advisory, LLC