



State of New Jersey
DEPARTMENT OF EDUCATION
PO Box 500
TRENTON, NJ 08625-0500

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

CHRISTOPHER D. CERF
Acting Commissioner

September 6, 2011

Cami Anderson
State District Superintendent
Newark Public Schools
2 Cedar Street
Newark, New Jersey 07102

Dear Ms. Anderson:

Attached is the internal audit report on early childhood provider First Steps Services For Children, Inc. In accordance with N.J.A.C. 6A:23A-5.6 the Newark Public Schools are required to publicly review and discuss the findings in the report at the next regularly scheduled public board meeting. Within 30 days of the public meeting the district board of education shall adopt a resolution certifying that the findings were discussed in a public meeting and approving a corrective action plan to address the issues raised in the findings. The resolution shall be submitted to the Internal Audit Unit within 10 days of adoption. The findings of the audit and the board of education's corrective action plan shall be posted on the district's web site.

Should you have any questions, please feel free to contact Walter Szeluga (ext. 6671) or myself.

Sincerely,

Steven Hoffmann
Coordinating Auditor
NJ Department of Education
(973) 621-2750

c: Christopher Cerf
Ellen Wolock
Robert Cicchino
Walter Szeluga

NEW JERSEY DEPARTMENT OF EDUCATION

NEWARK INTERNAL AUDIT UNIT

FIRST STEPS SERVICES FOR CHILDREN, INC.

2009-2010 FISCAL YEAR

AUGUST 2011

Confidential: This report is solely for management purposes and is not intended for any other use.

NEW JERSEY DEPARTMENT OF EDUCATION
NEWARK INTERNAL AUDIT UNIT
FIRST STEPS SERVICES FOR CHILDREN, INC.
2009-2010 FISCAL YEAR

Distribution List of Final Audit Report

Christopher D. Cerf, Acting Commissioner
New Jersey Department of Education

Cami Anderson, State District Superintendent
State Operated School District of Newark

Bari Erlichson, Assistant Commissioner
New Jersey Department of Education

Ellen Wolock, Director, Office of Preschool Education
New Jersey Department of Education

Justin Barra, Director, Public Information Office
New Jersey Department of Education

Robert Cicchino, Director, Office of Fiscal Accountability and Compliance
New Jersey Department of Education

Steven C. Hoffmann, Coordinating Auditor
New Jersey Department of Education

Walter S. Szeluga, Supervising Auditor
Newark Public Schools

**NEW JERSEY DEPARTMENT OF EDUCATION
NEWARK INTERNAL AUDIT UNIT
FIRST STEPS SERVICES FOR CHILDREN, INC.
2009-2010 FISCAL YEAR**

EXECUTIVE SUMMARY

The Newark Internal Audit Unit conducted an audit of First Steps Services for Children, Inc. (First Steps), a provider participating in the Department of Education (DOE) funded preschool program, for compliance with the terms of the 2009-2010 contract and budget.

The following deficiencies were noted:

- The auditors determined that the provider under spent the approved budget by \$89,785. The majority of the under spent lines were educational employee salaries, applicable taxes and teacher, teacher assistant and floating teacher assistant benefits. The Newark Public Schools (district) withheld \$72,560 from the provider's payments leaving a balance due back to the district of \$17,225.
- The Newark Office of Early Childhood (NOEC) did not have the current Child Abuse Record Information background check (CARI) result for four employees on file. The auditors obtained three of the four from the provider. One of the three was done late. The NOEC did not have a Criminal History Record Information (CHRI) background check result for three employees. The auditors obtained the three from the provider. One of the three was done late. The Mantoux Tuberculin (TB) test result for two employees was done late.
- The June 30, 2010 bank reconciliation submitted by the provider at the wrap up meeting did not balance. Checks were issued out of order. The checks listed on the bank reconciliation did not show the name of the payee and issue date. The bank reconciliation reflects a bank balance of \$57,826.89 and outstanding checks totaling \$116,863.76.
- The provider did not submit a copy of their 2009 and 2010 federal corporation tax returns, the September 30, 2009 quarterly NJ 927, a complete copy of their lease, the June and July 2010 bank statements and a complete copy of their general ledger.

DETAILED FINDINGS

The Newark Internal Audit Unit reviewed the expenditure reports and supporting documentation for First Steps for the period July 2009 through June 2010 for compliance with the executed contract and approved budget. During this year, the providers were given expenditure guidance that must be used to document and justify all expenditures relating to the DOE funded preschool program. As per New Jersey Administrative Code 6A:13A, the district shall monitor the expenditures at least quarterly and must recoup any unexpended or misspent funds based on the quarterly expenditure reports, enrollment records and monthly payments made by the school district. Each provider must submit to the district a quarterly report of actual, approvable, reasonable and customary expenditures with supporting documentation and receipts. The quarterly report must include expenditures for all district-approved budget lines for the school year. The quarterly report must be signed and certified by an officer of the corporation. All providers must complete the "2009-2010 Private Provider One-Year Planning Budget Worksheet" and file it with the district prior to the start of the fiscal year. This worksheet will serve as the basis for the quarterly reports. Providers will be reimbursed only for costs that are allowable and documented through quarterly expenditure reports.

**NEW JERSEY DEPARTMENT OF EDUCATION
NEWARK INTERNAL AUDIT UNIT
FIRST STEPS SERVICES FOR CHILDREN, INC.
2009-2010 FISCAL YEAR**

The provider may submit budget modification requests to the district. The district may set a date past which budget transfer requests will no longer be accepted for the budget year and must notify the providers of that date prior to the fourth quarter of the budget year. The district set a modification deadline of Monday May 3, 2010. The provider submitted three modification requests dated May 4, 2010. The NOEC date stamped one on May 4, 2010 and was approved by the Director of Early Childhood on June 2, 2010. The NOEC date stamped the other two requests as received May 7, 2010. Neither the NOEC nor First Steps could give the auditors an approved or disapproved copy of the modification requests signed by the director. The auditors adjusted the budget for only the approved modification budget lines. The modifications approved by the Director of Early Childhood were transfers between indirect cost lines and a transfer from an administrative line and an indirect line to an indirect line. The modifications not considered totaled \$15,304.

The audit scope included determining whether or not:

- The provider had a current license.
- The DOE funded preschool employees, employed during the contract period, have CHRI results, CARI results, applicable teaching credentials and TB test results on file. The contract has a provision that the provider shall provide proof to the district, prior to the commencement of the program, that each individual employed by the contracted child care center has had a criminal history background check and that said check indicates that no criminal history record information exists on file which would disqualify said employee from employment pursuant to law.
- The provider maintained a financial system that provides timely, accurate and complete disclosure of all financial activities related to the DOE funded preschool agreement.
- The provider properly handled DOE funded preschool cash receipts and disbursements; completed a year - end bank reconciliation for each bank account handling this funding.
- The provider maintained the proper insurance as required by the contract.
- The provider submitted the proper supporting documentation with the quarterly expenditure reports.
- The provider based all benefit expenditures on a written uniform policy.
- The provider annually obtained signed waivers from staff members choosing to opt out of benefit coverage. The waivers must indicate proof of insurance from another source.
- The provider filed federal and state tax and payroll returns.

Below is a summary of the audit findings:

FIRST STEPS SERVICES FOR CHILDREN, INC.:

First Steps, a for-profit organization, operates a childcare center providing services to the children in Newark, New Jersey. The center is located at 15 So. 9th Street Newark, NJ. It serves 45 children in the DOE preschool program. The approved budget was \$718,430. The NOEC paid the provider \$645,870 of the approved budget.

1. DOE Preschool Education Program:

The provider shall submit to the NOEC a quarterly expenditure report of actual, approvable, reasonable and customary expenditures with supporting documentation and receipts. The quarterly report shall include expenditures for all approved budget lines for the school year including all approved salaries, benefits,

**NEW JERSEY DEPARTMENT OF EDUCATION
NEWARK INTERNAL AUDIT UNIT
FIRST STEPS SERVICES FOR CHILDREN, INC.
2009-2010 FISCAL YEAR**

payroll taxes, substitute stipends, classroom materials and supplies, start-up classroom materials/supplies and technology, if applicable. It also includes expenditures for field trips and transportation, space costs, food costs, and all allowable administrative and indirect costs as itemized under the Administrative Support and Indirect Costs section of the Private Provider Expenditure Guidance for school year 2009-2010. The contract states that based on the district review of the quarterly expenditure reports, the district shall make prorated adjustments to subsequent monthly payments.

Providers will be reimbursed only for costs that are allowable and documented through quarterly expenditure reports in strict accordance with the approved budget. Unexpended funds will be recouped by the district. Salaries that do not relate back to the provider's Schedule A are non-allowable salary costs. All benefit expenditures must be based on a written, uniform policy based on an equitable standard of distribution. Non allowable benefit and pension costs include the cost of benefits that do not relate back to the provider's written policy. Providers must obtain waivers from any staff member choosing to opt out of benefit coverage. Waivers must be signed annually, and must indicate proof of insurance from another source.

The NOEC paid the provider \$645,870. The auditors reviewed the documentation submitted. Based on their review, the auditors determined the provider under spent the approved budget by \$89,785. The NOEC withheld \$72,560 resulting in \$17,225 due back to the district.

Recommendation:

The auditors recommend that the district recover \$17,225 from the provider.

2. Personnel File Review:

The DOE funded preschool program employees, employed during the contract period shall have CHRI results, CARI results, applicable teaching credentials, and Mantoux tuberculin test results on file with the provider. Per the contract, the provider must provide copies of all the above except the TB test results to the NOEC. The auditors requested the CHRI results, CARI results and applicable teaching credentials from the NOEC. The TB test results were requested from the provider. The auditors reviewed the documentation provided by the NOEC for the DOE preschool program employees and noted the following were missing:

- A current CARI background check for four employees.
- A CHRI for three employees.

The auditors obtained three of the four CARI's from the provider. One of the three was not completed until the subsequent year (February 17, 2011). The auditors obtained the CHRI for the three employees from the provider. One was not done until the subsequent year (October 29, 2010). The auditors obtained all the TB test results from the provider but two were done late.

NEW JERSEY DEPARTMENT OF EDUCATION
NEWARK INTERNAL AUDIT UNIT
FIRST STEPS SERVICES FOR CHILDREN, INC.
2009-2010 FISCAL YEAR

Recommendation:

The auditors recommend that the NOEC personnel reviewing the provider expenditure reports notify the certification supervisor of all employees working in the DOE program. The certification supervisor should verify that the NOEC has all applicable credentials, CHRI results and CARI results for these employees. The supervisor should pursue the provider for all missing or incomplete documentation. The auditors recommend that the NOEC retain these documents for future audit purposes.

3. June 30, 2010 Bank Reconciliation:

The auditors reviewed the June 30, 2010 bank reconciliation submitted by the provider on June 27, 2011 at the wrap up meeting. The auditors noted that:

- The bank reconciliation did not balance.
- The reconciliation shows a bank balance of \$57,826.89 and outstanding checks of \$116,863.76.
- The 24 outstanding checks did not show an issue date or the payee name.
- Eleven of the outstanding checks totaling \$76,455.91 were to New United Corporation (provider's landlord). The check dates ranged from July 20, 2009 to June 30, 2010 per the general ledger.
- The provider was issuing checks out of sequence.
- Thirteen outstanding checks totaling \$40,407.85 did not appear in the General Ledger from July 2009 through June 2010. See fifth bullet above.

The auditors requested the provider explain the issues noted above numerous times. The auditors did not receive any explanation as of the date of this report..

Recommendation:

The auditors recommend that the NOEC have the provider complete a correct bank reconciliation as of June 30, 2010 including the names of the payees and the dates of the checks. The auditors recommend that the NOEC have the provider complete and submit monthly bank reconciliations to them in the future.

4. Items Requested but not Received:

The auditors made numerous unsuccessful attempts to obtain the following information from the provider.:

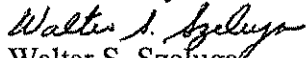
- Copies of the 2009 and 2010 Federal Corporation for profit tax returns and a copy of the State NJ 927 for quarter ending September 30, 2009.
- Copy of a complete general ledger for July 2009 through June 2010.
- A complete copy of the providers lease.

NEW JERSEY DEPARTMENT OF EDUCATION
NEWARK INTERNAL AUDIT UNIT
FIRST STEPS SERVICES FOR CHILDREN, INC.
2009-2010 FISCAL YEAR

Recommendation:

The auditors recommend that the NOEC obtain the above from the provider. The auditors recommend that the NOEC review the tax returns in conjunction with the corrected bank reconciliation and general ledger to determine if the provider is functioning as a going concern and should be retained.

Submitted by:


Walter S. Szeluga
Supervising Auditor

Approved by:


Steven C. Hoffmann
Coordinating Auditor