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DEPARTMENT OF EDUCATION
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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

CHRISTOPHER D. CERF
Acting Commissioner

March 22, 2011

Deborah Terrell
Interim State District Superintendent
Newark Public Schools
2 Cedar Street
Newark, New Jersey 07102

Dear Ms. Terrell,

Attached is the internal audit report on early childhood provider Giant Steps Learning Center 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 or myself.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Hoffmann".

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

GIANT STEPS LEARNING CENTER INC.

2008-2009 FISCAL YEAR

MARCH 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
GIANT STEPS LEARNING CENTER INC.
2008-2009 FISCAL YEAR**

Distribution List of Final Audit Report

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

Deborah Terrell, Interim State District Superintendent
State Operated School District of Newark

Ellen Wolock, Director, Office of Preschool Education
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
GIANT STEPS LEARNING CENTER INC.
2008-2009 FISCAL YEAR**

EXECUTIVE SUMMARY

The Newark Internal Audit Unit conducted an audit of Giant Steps Learning Center Inc. (Giant Steps) a provider participating in the Department of Education (DOE) Preschool Education Program, for compliance with the terms of the 2008-2009 contract. The Executive Director of the provider notified the Newark Office of Early Childhood (NOEC) in May 2009 of their intent not to renew its agreement for school year 2009-2010. The Director of the NOEC responded via certified mail on June 2, 2009 reminding the Executive Director that the provider must adhere to the contract provisions and requirements for school year 2008-2009. The provider never submitted the fourth quarter expenditure report to the NOEC. The NOEC made several unsuccessful attempts to contact the provider. Since the NOEC was unable to contact the provider, the auditors did not attempt to contact the provider and reviewed the expenditure reports that were submitted for the first three quarters.

The following deficiencies were noted:

- The auditor determined that the provider under spent the approved budget by \$189,957. The provider was not given credit for expenditures for the fourth quarter since nothing was submitted in violation of the contract. The majority of the under spent lines were salaries, related taxes and benefits. The district withheld \$78,448 from the provider's payments leaving a balance due back to the district of \$111,509.
- The NOEC did not have Child Abuse Record Information (CARI) results for three employees and Criminal History Record Information (CHRI) results for two employees. The NOEC did not have the credentials for the substitute teacher.
- The NOEC does not require the provider to submit inventories of classroom materials and supplies and classroom technology which could be used to recover DOE preschool funded items or their monetary equivalent upon non renewal.
- The NOEC did not have a copy of the providers written benefit policy and employee benefit waivers.

DETAILED FINDINGS

The Newark Internal Audit Unit reviewed the expenditure reports and supporting documentation submitted for the period July 2008 through March 2009 for compliance with the executed contract and approved budget. The provider did not submit the expenditure report for the fourth quarter in violation of the contract. 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. The provider can choose between a presumptive budget and a line-item budget process. Providers who choose the presumptive budget process must complete the 2008-2009 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 and all expenditures must be within allowable expenditure categories.

The audit scope included determining whether or not:

- The DOE funded preschool employees, employed during the contract period, have CHRI results, CARI results, applicable teaching credentials 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

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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 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 choosing to opt out of benefit coverage. The waivers must indicate proof of insurance from another source.

Since the provider did not renew the agreement with DOE for the 2009-2010 school year and did not respond to numerous requests by the NOEC, the auditors did not attempt to contact the provider. The NOEC did not obtain a copy of the benefit policy and waivers from the provider.

Below is a summary of the audit findings:

GIANT STEPS LEARNING CENTER INC.:

Giant Steps, a non-profit organization, operates a childcare center providing services to the children in Newark, New Jersey. The provider is located at 725 Martin Luther King Blvd., Newark, NJ 07108 and serves a total 30 DOE children. The DOE Preschool Education Program budget was \$411,958. The NOEC paid the provider \$333,510. The provider, even though no longer a participant in the DOE Preschool Program, operates a daycare center. The auditors determined that as of February 8, 2011, the provider is a licensed childcare center serving children 0 to 6 with a capacity of 83 children.

1. DOE Preschool Education Program

The DOE funds the six-hour educational component of the preschool program and the Department of Human Services (DHS) funds the wrap around component.

The provider shall submit to the district Board of Education a quarterly 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, payroll taxes, substitute stipends, classroom materials and supplies, and technology. It also includes 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 2008-2009.

Giant Steps chose the presumptive budget process. The Planning Budget Worksheet served as the basis for the provider's 2008-2009 quarterly reports. The Planning Budget Worksheet totaled \$411,958. While providers need not be held to the amounts indicated in their planning document, districts may require justification for expenditures that over or under expend a line in the planning budget worksheet. Providers will be reimbursed only for costs that are allowable and documented through quarterly expenditure reports. 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.

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The auditor, after reviewing the first three quarterly expenditure reports and supporting documentation, determined that the provider under spent the approved budget by \$189,957. The majority of the under spent lines were salaries, related taxes and benefits. The auditors noted the March 20, 2009 payroll journal was not submitted though expenses were charged. The provider summaries for the 4th quarter and all associated payroll registers benefit invoices and bills to support the operating expenses were not submitted. The district withheld \$78,448 from the provider's payments leaving a balance due back to the district of \$111,509. The NOEC stated they did review the quarterly expenditure reports.

Recommendation:

The auditors recommend that the NOEC pursue recovery of \$111,509 from the provider either on their own or by using the services of the districts' Legal Department since the provider violated the terms of the contract. The provider is still operating as a licensed daycare center. The auditors recommend that the NOEC review the quarterly expenditures for all providers on a timely basis.

2. PERSONNEL FILE REVIEW:

The DOE funded preschool program employees, employed during the contract period should have CHRI results, CARI results, applicable teaching credentials, and TB test results on file with the provider. The contract states the provider must provide copies of all the above except the TB test results to the NOEC. The auditors requested the personnel documentation from the NOEC except for the TB test results. The auditors reviewed the documentation provided by the NOEC for the DOE preschool program employees and noted they did not have the CARI results for three employees and the CHRI results for two employees. Also, the NOEC did not have the credentials for the substitute teacher. The auditors did not attempt to contact the provider for the TB test results and the missing documentation noted above because the provider did not respond to numerous contact attempts by the NOEC

Recommendation:

The auditors recommend that NOEC personnel reviewing all provider expenditure reports notify the certification supervisor of all employees working in the DOE program. The credentials supervisor should verify that the NOEC has all current applicable credentials, CHRI results and CARI results for these employees. The supervisor should pursue the providers for all missing items.

3. CONTRACT NON-RENEWAL:

The provider notified the NOEC on May 9, 2009 of their intent not to renew the preschool program contract for school year 2009-2010. Page 19, Section F and Page 21 Section E of the 2008-2009 contract states that "Upon non-renewal, the District shall recover from the provider all playground materials and equipment both installed and uninstalled, start-up classroom materials and start-up classroom technology or the monetary equivalent thereof. The amount to be recovered shall be at least equal to the amount approved for the initial start-up costs". The NOEC in their June 2, 2009 letter to the provider stated that as part of the close out process, an equipment and material inventory would be taken on non consumable items purchased with DOE funds to determine which items or their monetary equivalent needed to be returned to the district.

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The 2008-2009 guidance states the district may require providers to supply an inventory of each DOE-funded classroom for each quarter to demonstrate that appropriate materials and supplies are present in each classroom. The guidance also states that the district may require providers to supply an inventory of each DOE-funded classroom to demonstrate that appropriate classroom technology is present in each classroom. The NOEC does not require the providers to supply these inventories. The auditors were informed that the inventory was conducted on June 25, 2009 and a few boxes of books were recovered. The provider had two DOE preschool classes. The NOEC employee conducting the inventory did not have a list of non consumable items to recover. The employee stated the classroom computers were not worth taking. Without a list of recoverable items, the employee would not know what to recover. For example, the provider purchased two Pentax digital cameras and two HP Photosmart printers in 2008-2009. The district employee was not aware of them and they were not recovered. The auditors did not review prior years' expenditure reports to determine if the provider purchased any other items that may have been recoverable because of the recoverable items noted in 2008-2009. The NOEC should have reviewed the prior years' expenditure reports and provided the employee conducting the inventory with a list of recoverable items.

Recommendation:

The auditors recommend that the NOEC require the providers to submit the above mentioned inventories. These inventories could be used as a source document of recoverable items should the provider not renew the contract. The NOEC should review the expenditure reports for the past few years to determine what may be recoverable. The auditors recommend that the NOEC pursue the recovery of these items or there monetary equivalent.

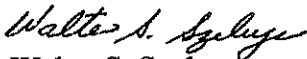
4. Benefits Policy and Benefits Waivers

The Private Provider expenditure guidance states that all benefit expenditures must be based on a written uniform policy based on an equitable standard of distribution such as years of service or education. 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 should have checked to see if a waiver was obtained for one teacher. The NOEC does not obtain the written benefit policies and waivers from the providers.

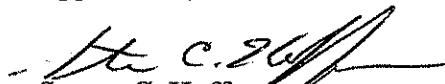
Recommendation

The auditors recommend that the NOEC obtain and retain a copy of each provider's written benefit policy as part of their review of expenditure reports and obtain and retain any benefit waivers for all providers in the DOE preschool program.

Submitted by:


Walter S. Szeluga
Supervising Auditor

Approved by:


Steven C. Hoffmann
Coordinating Auditor