



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

March 21, 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 Newark Tenants Council, 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,

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

NEWARK TENANTS COUNCIL, INC.

CHILD DAY CENTERS

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
NEWARK TENANTS COUNCIL, INC.
CHILD DAY CENTERS
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**

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EXECUTIVE SUMMARY

The Newark Internal Audit Unit conducted an audit of Newark Tenants Council, Inc. Child Day Centers (Newark Tenants Council) a provider participating in the Department of Education (DOE) Preschool Education Program, for compliance with the terms of the 2008-2009 contract. The provider did not renew its contract for 2009-2010 and apparently is no longer in business. The provider did not notify the Newark Office of Early Childhood (NOEC) of its intent not to renew the contract for 2009-2010.

The more significant deficiencies noted were:

- The auditor determined that the provider under spent the approved budget by \$185,435. The majority of the under spent lines were salaries, related taxes, benefits and rent and food for DOE children. The district withheld \$117,430 from the provider's payments leaving a balance due back to the district of \$68,005.
- The NOEC paid the provider \$773,476 but did not fully review the expenditure reports.
- The NOEC did not have Criminal History Record Information (CHRI) results for nine employees and Child Abuse Record Information (CARI) for seven employees.
- 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 obtain a copy of the benefit policy and any employee benefit waivers.

DETAILED FINDINGS

The Newark Internal Audit Unit reviewed the expenditure reports and supporting documentation submitted for the period July 2008 through June 2009 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. The provider can choose between a presumptive budget and a line-item budget process. Providers who choose the line item budget process must complete the 2008-2009 Private Provider One-Year Line-Item 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 and applicable teaching credentials. 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 submitted the proper supporting documentation with the quarterly expenditure reports.
- The provider based all benefit expenditures on a written uniform policy.

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- The provider annually obtained signed waivers choosing to opt out of benefit coverage. The waivers must indicate proof of insurance from another source.

The provider did not notify the NOEC of its intent not to renew the contract with the DOE program for the 2009-2010 school year. The auditors were informed that the provider was no longer operating a daycare center. The auditors attempted to contact the provider but all four telephone numbers were no longer in service. The NOEC did not obtain a copy of the benefit policy and copies of the benefit waivers from the provider.

Below is a summary of the audit findings:

NEWARK TENANTS COUNCIL, INC.

Newark Tenants Council, Inc., a non-profit organization, operated a childcare center providing services to the children in Newark, New Jersey. The provider's principal office was located at 303 Washington Street in Newark, New Jersey and served 60 DOE children. The DOE Preschool Education Program budget was \$890,906. The NOEC paid the provider \$773,476. The auditors reviewed the list of licensed Child Care Centers as of August 6, 2010 and February 8, 2011. The provider was not on either list.

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 NOEC 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 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.

Newark Tenants Council, Inc. appears to have chosen the line-item budget process since the 2008-2009 Provider One Year Line-Item Budget Worksheet was completed. 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 auditor, after reviewing the quarterly expenditure reports and documentation submitted, determined that the provider under spent the approved budget by \$185,435. The majority of the under spent lines were salaries, related taxes, benefits, rent and food for DOE children. The auditors denied the expenses for food for DOE children because the provider did not submit a reconciliation of costs and Child and Adult Care Food Program reimbursements with the

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expenditure reports. The budget was \$9,536. The provider submitted \$18,019 as pension expenses in the first and second quarters. They did not submit any pension related costs in the third and fourth quarters. All pension related expenses were based on 7% of salary except for one employee's pension cost which was based on 5% of salary. The auditors disallowed the pension contributions because they were unable to determine if the expenses complied with the providers written benefit policy. The NOEC did not have a copy of the provider benefit policy. The provider did not apply the factor (57.14%) for the DOE share of DOE/Non DOE costs and sometimes did not apply the DOE share (76.33%) of DOE/DHS costs to various budget lines. The district withheld \$117,430 from the provider's payments leaving a balance due back to the district of \$68,005. The NOEC stated they believe they only reviewed salaries and benefits.

Recommendation:

The auditors recommend that the NOEC look into the feasibility of pursuing recovery of \$68,005 from the provider either on their own or by using the services of the districts' Legal Department. The auditors further recommend that the NOEC review the expenditure reports 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 CHRI results and CARI results for seven employees (five substitute teacher assistants, one floating teacher assistant and one family worker) and did not have the CHRI results for two janitors. A CARI would be necessary for the janitors if they came in regular contact with the children. In addition, the NOEC did not have the credentials for the five substitute teacher assistants and the floating teacher assistant.

Recommendation:

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

3. CONTRACT NON-RENEWAL:

The provider did not 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". As part of the close out process, an equipment and material inventory should be taken on non consumable items purchased with DOE funds

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to determine which items or their monetary equivalent needed to be returned to the NPS. 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 NOEC stated it did not conduct a close out inventory and recover DOE funded non consumable property because they did not know the provider was not going to renew the contract. The NOEC employee conducting an inventory would need a list of non consumable items to recover. Without a list of recoverable items, the employee would not know what to recover. For example, the provider purchased four Lexmark all-in-one printers, four monitors and four desktop computers in April, 2009 and four monitors, a desktop computer and a laser printer in June 2009. The DOE program only has four DOE classes. The provider also had three non DOE classes. The provider charged all the items above to the DOE program.

Recommendation:

The auditors recommend that the NOEC require all 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. If possible, the NOEC should pursue recovery of these items or there monetary equivalent.

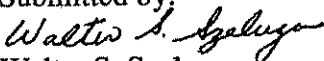
4. Provider Benefits Policy and Benefit Waivers:

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. The Provider charged \$18,019 as pension benefits for the first two quarters based on 7% of salary except for the clerical employee which was 5% of salary. The auditors could not determine if the amounts were proper because the NOEC did not have a copy of the benefit policy. Providers must obtain waivers from any staff member choosing to opt out of benefit coverage. The NOEC should have had benefit waivers for seven employees. The NOEC notified the auditors that they do not obtain benefit waivers from the providers.


Recommendation:

The auditors recommend that the NOEC obtain all provider benefit policies and benefit waivers as part of their review of the expenditure reports.

Submitted by:


Walter S. Szeluga
Supervising Auditor

Approved by:


Steven C. Hoffmann
Coordinating Auditor