

**Resolution to Present the Internal Audit Report on the Early Childhood Provider Sarah Ward Nursery**

WHEREAS, the State of New Jersey Department of Education, Newark Internal Audit Unit, was engaged by the State of New Jersey Department of Education to conduct an audit of the Early Childhood Provider Sarah Ward Nursery. and

WHEREAS, this audit has been completed, a report was filed with the Superintendent of Schools along with recommendations for improvement, which are available for public review, and,

WHEREAS, the district will propose a corrective action plan within 30 days to correct any deficiencies noted

NOW, THEREFORE, BE IT RESOLVED, the Superintendent and Advisory Board accept receipt of the report.

**APPROVALS REQUIRED**

SUBMITTED BY:

*Valerie V. Wilson*

Valerie V. Wilson

School Business Administrator

*10/18/10*  
Date

APPROVED BY:

*Clifford B. Janey*

Dr. Clifford B. Janey

State District Superintendent

*10/18/10*

Date



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

CHRIS CHRISTIE  
Governor

KIM GUADAGNO  
Lt. Governor

ROCHELLE R. HENDRICKS  
Acting Commissioner

September 10, 2010

Dr. Clifford B. Janey  
State District Superintendent  
Newark Public Schools  
2 Cedar Street  
Newark, New Jersey 07102

Dear Dr. Janey,

Attached is the internal audit report on early childhood provider Sarah Ward Nursery. 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: Rochelle Hendricks  
Robert Cicchino  
✓Walter Szeluga

NEW JERSEY DEPARTMENT OF EDUCATION

NEWARK INTERNAL AUDIT UNIT

SARAH WARD NURSERY

2008-2009 FISCAL YEAR

AUGUST 2010

**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  
SARAH WARD NURSERY  
2008-2009 FISCAL YEAR

Distribution List of Final Audit Report

Rochelle Hendricks, Acting Commissioner  
New Jersey Department of Education

Clifford B. Janey, 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  
SARAH WARD NURSERY  
2008-2009 FISCAL YEAR

EXECUTIVE SUMMARY

The Newark Internal Audit Unit conducted an audit of Sarah Ward Nursery, a provider participating in the Department of Education (DOE) funded preschool program, for compliance with the terms of the 2008-2009 contract and budget.

The more significant deficiencies noted were:

- The auditors determined that the provider under spent the approved budget by \$188,344.32. The majority of the under spent lines were teacher, teacher assistant and floating teacher assistant benefits and salaries. The district withheld \$110,859.40 from the provider's payments leaving a balance due back to the district of \$77,484.92.
- The Newark Office of Early Childhood (NOEC) paid the provider \$2,193,547.60 but did not review the quarterly expenditure reports as submitted.
- The NOEC did not have a completed Criminal History Record Information background check (CHRI) and a completed Child Abuse Record Information background check (CARI) for four employees. The provider had a completed CHRI and CARI for three of the four employees. The provider received a notification of an incomplete CHRI on February 15, 2008 for one employee but did not resolve the outstanding issue. The provider stated the CARI and Mantoux tuberculin (TB) test result for the other employee was done but could not be found.

DETAILED FINDINGS

The Newark Internal Audit Unit reviewed the expenditure reports and supporting documentation for Sarah Ward Nursery 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 providers 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 daycare center 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 childcare 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.

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- 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.

Below is a summary of the audit findings:

**SARAH WARD NURSERY:**

Sarah Ward Nursery, a non-profit organization, operates a childcare center providing services to the children in Newark, New Jersey. The provider is located at 27 Jay Street, 105 Lock Street and 406 Sanford Avenue in Newark and serves a total of 195 children in the DOE preschool program. The approved budget was \$2,304,407. The NOEC paid the provider \$2,193,547.60 of the approved budget.

**Abbott Preschool 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, start-up classroom materials/supplies and technology, if applicable, 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. The contract states that based on the district review of the quarterly expenditure reports, the district shall make prorated adjustments to subsequent monthly payments.

Sarah Ward Nursery chose the presumptive budget process. The Planning Budget Worksheet will serve as the basis for the provider's 2008-2009 quarterly reports. The Planning Budget Worksheet totals \$2,304,407. 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.

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 indicating the percent that will be put toward retirement for all employees. The providers employee handbook under employer contribution states that "the employer may make a matching contribution to each participant based on his/her elective deferrals in a percentage set by the employer prior to

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the end of each plan year. The employer shall not match your elective deferrals that are in excess of 6% maximum, of your annual salary. This amount will be designated based on years of employment and professional standing. This figure may also change yearly". The auditors noted that the employees did not make any contributions and therefore the providers contributions were not matching. Accordingly, the provider's 401K contributions were disallowed based on DOE guidance and the providers' written policy.

The NOEC paid the provider \$2,193,547.60 but did not review the quarterly expenditure reports. The auditors reviewed the documentation submitted and determined that the provider under spent the budget by \$188,344.32. The NOEC withheld \$110,859.40. The auditors requested the NOEC to explain if the funds were withheld due to enrollment or some other reason. The auditors were informed by the NOEC that they did not have the time to itemize it out. The auditors believe the reasoning and calculation of the funds withheld (\$110,859.40) should have been documented at the time the funds were withheld. The auditors determined that \$77,484.92 is due back to the district.

**Recommendation:**

The auditors recommend that the provider reimburse \$77,484.92 to the district and that the NOEC review the quarterly expenditure reports on a timely basis. The auditors recommend that the NOEC document their basis for withholding payments. The auditors recommend that the NOEC obtain a copy of the employee handbook and deny employer contributions to 401K plans that do not comply with the written policy and DOE guidance.

**PERSONNEL FILE REVIEW:**

The DOE funded preschool program employees, employed during the contract period, should 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 personnel documentation from the NOEC except for the TB test results which 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 CARI background check and CHRI background check for four employees.
- Substitute teacher certificates for three substitute teachers.

The auditors requested the above documentation from the provider. The provider had the CARI and CHRI background check for three of the four employees. The auditors noted that the following documents were either not obtained, incomplete or missing:

- The cook had an incomplete CHRI since February 15, 2008. The provider did not have the employee clear up the issues preventing a complete CHRI from being issued.
- Three substitute teachers did not have a substitute teacher certificate during the contract year. The provider sent a substitute teacher certificate for one of the three substitute teacher which was dated December 22, 2009.
- The provider stated they could not find the CARI and TB test result for an employee. The provider stated both were done but could not be located.


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The auditors provided the NOEC with copies of the CHRI and CARI for the employees obtained from the provider.


**Recommendation:**

The auditors recommend that the NOEC follow up with the provider for the above missing items. The auditors recommend that the NOEC ensure they have the CHRI and CARI results for all DOE preschool program employees presently working at the provider.

Submitted by:

  
Walter S. Szeluga  
Supervising Auditor

Approved by:

  
Steven C. Hoffmann  
Coordinating Auditor