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

THE NEWARK PUBLIC SCHOOLS
OFFICE OF SCHOOL BUSINESS ADMINISTRATOR

CHRISTOPHER D. CERF
Acting Commissioner

May 6, 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 St. Justine Nursery, 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

MAY 11 2011

NEW JERSEY DEPARTMENT OF EDUCATION

NEWARK INTERNAL AUDIT UNIT

ST. JUSTINE NURSERY, INC.

2009-2010 FISCAL YEAR

APRIL 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
ST. JUSTINE NURSERY, INC.
2009-2010 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
ST. JUSTINE NURSERY, INC.
2009-2010 FISCAL YEAR**

EXECUTIVE SUMMARY

The Newark Internal Audit Unit conducted an audit of St. Justine Nursery, Inc., (St. Justine) 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 deficiencies noted were:

- The provider under spent the approved budget by \$87,930. The majority of the under spent lines were certified teacher and floating teacher assistant salaries, substitute teacher and substitute teacher assistant stipends and food for the DOE funded children. The district withheld \$70,065 from the provider's payments leaving a balance due back to the district of \$17,865.
- The Newark Office of Early Childhood (NOEC) did not have a completed Child Abuse Record Information (CARI) background check for three employees, a completed Criminal History Record Information (CHRI) for two employees nor the credentials for two employees on file. The provider had the completed CARIs, CHRIs and credentials for these employees. A CARI for a substitute teacher was completed approximately three months subsequent to the date of hire.
- The provider did not have a written benefits policy.
- The provider obtained signed waivers choosing to opt out of benefit coverage but the waivers did not indicate proof of insurance from another source and were not dated.

DETAILED FINDINGS

The Newark Internal Audit Unit reviewed the expenditure reports and supporting documentation for St. Justine 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 Newark Public Schools (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.

The provider may submit budget transfer 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 transfer deadline of Monday May 3, 2010. St. Justine did not submit any transfer requests.

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The audit scope included determining whether or not:

- The day care center had a current license.
- The DOE funded preschool employees, employed during the contract period, had CHRI results, CARI results, applicable teaching credentials and Mantoux Tuberculin (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 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.

Below is a summary of the audit findings:

ST. JUSTINE NURSERY, INC:

St. Justine, a for-profit organization, operates a childcare center providing services to the children in Newark, New Jersey. The provider is located at 119-137 Clifford Street in Newark and served 90 children in the DOE Preschool Education Program. The approved budget was \$1,292,288. The NOEC paid the provider \$1,222,223 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, payroll taxes, substitute stipends, classroom materials and supplies, start-up classroom materials/supplies and technology. It also includes field trips including 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.

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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 \$1,222,223. The NOEC stated they summarized the salaries and benefits only. The auditors reviewed the documentation submitted. The auditors had to request the names of the teachers and teacher assistants being substituted for from the provider. The auditors determined that the provider under spent the approved budget by \$87,930. The majority of the under spent lines were certified teacher and floating teacher assistant salaries, substitute teacher and substitute teacher assistant stipends, educational employees employer payroll taxes and food for the DOE funded children. The district withheld \$70,065 from the provider's payments leaving a balance due back to the district of \$17,865. The provider participates in the Child and Adult Care Food Program (CACFP). The auditors requested a reconciliation of the providers CACFP costs less reimbursements to determine if the provider sustained excess costs that would be reimbursed under the DOE preschool program. The auditors reviewed the reconciliation and determined that reimbursements exceeded cost therefore they denied the charges claimed on the Food for DOE children budget line.

In addition, the auditors noted that three individuals hired to be substitute assistants for a total of five days in the second quarter were paid \$290 and one individual was hired as a substitute assistant who substituted for a teacher for 10 days in the third quarter was paid \$737.50. These payments were not made through the payroll register.

Recommendation:

The auditors recommend that the provider reimburse \$17,865 to the district. The auditors recommend that the provider pay all wages through the payroll system.

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 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 employees and noted the following:

The NOEC did not have a completed CARI background check for three employees, a completed CHRI for two employees nor the credentials for two employees on file. The provider had the completed CARIs, CHRIs and credentials for these employees. One of the three CARI's was completed by the Department of Children and Families Office of Licensing on March 25, 2010 for a substitute teacher who was hired December 12, 2009. The auditors provided the NOEC certification supervisor copies of the above documentation obtained from the provider. The auditors noted the provider sometimes used two teacher

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assistants without teacher certifications to substitute for teachers. The provider stated they could not get substitute teachers in those instances so they used teacher assistants.

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, including CHRI results and CARI results for these employees. The supervisor should pursue the provider for all missing documentation. The auditors recommend that the NOEC retain these documents for future audit purposes.

3. BENEFITS:

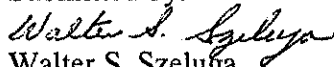
The DOE funded Preschool Program guidance for 2009-2010 states all benefit expenditures must be based on a written, uniform policy based on an equitable standard of distribution, such as years of service or education. Providers must obtain waivers from any staff member choosing to opt out of benefit coverage. Waivers must be signed annually, and must indicate proof of insurance from another source.

The auditors determined the provider did not have a written benefits policy. The provider obtained signed waivers from staff members choosing to opt out of benefit coverage but the waivers were not dated and did not include proof of insurance from another source.


Recommendation:

The auditors recommend that the provider create a written uniform benefits policy and ensure that the signed waivers are obtained annually and include proof of insurance from another source. The auditors recommend that NOEC verify that the provider has a written policy that complies with the DOE guidance and that all waivers are completed annually and include proof of insurance from another source.

Submitted by:


Walter S. Szeluga
Supervising Auditor

Approved by:


Steven C. Hoffmann
Coordinating Auditor