



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**City of Camden Board of Education  
Early Childhood Education Program**

July 1, 2001 to December 31, 2002

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**Richard L. Fair  
State Auditor**

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# New Jersey State Legislature

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The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
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Enclosed is our report on the audit of the City of Camden Board of Education, Early Childhood Education Program for the period July 1, 2001 to December 31, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Richard L. Fair".

Richard L. Fair  
State Auditor

July 24, 2003

## Table of Contents

	<b>Page</b>
Scope .....	1
Objectives .....	1
Methodology .....	2
Conclusions .....	2
Findings and Recommendations	
Criminal History and Child Abuse Background Checks .....	3
Provider Insurance Compliance .....	4
Provider Financial Records .....	5

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## **City of Camden Board of Education Early Childhood Education Program**

### ***Scope***

We have completed an audit of the City of Camden Board of Education (CCBOE) for the period July 1, 2001 to December 31, 2002. Our audit was limited to the expenditures made to community providers for the Early Childhood Education Program.

The state made funds available for early childhood education programs to Camden and the 29 other Abbott districts. The program was established to assist Abbott districts in ensuring that each three and four year old will enter kindergarten ready to learn. The district has contracted with Department of Human Services licensed day-care providers for 180 days of six-hour educational services and 245 days of wrap-around child care. Wrap-around child care can occur before and after the six-hour educational day and full time on those days when school is not in session including summer months. The Early Childhood Operational Plan approved by the state Department of Education for Camden was \$12 million for the 2001-2002 school year and \$17 million for the 2002-2003 school year. Total expenditures to community providers were \$7 million for the 2001-2002 school year and are expected to be \$11 million for the 2002-2003 school year.

The enrollment was 1,855 students as of October 15 2002, including 1,320 students with 23 contracted community providers. A constructive relationship existed between the CCBOE and the providers and was evident by the level of consistency observed during our visits to the providers.

### ***Objectives***

The objectives of our audit were to determine whether expenditures were related to the program, were reasonable, and were recorded properly in the accounting system. This audit was conducted pursuant to the State Auditor's responsibilities as set

forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

### ***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, and policies of the board. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of expenditure transactions. We read the budget and board minutes, and interviewed district personnel to obtain an understanding of the program and internal control. We also reviewed the adequacy of the district's monitoring of the Early Childhood Education Program. In addition, we reviewed audit reports issued by the board's certified public accounting firm.

A nonstatistical sampling approach was used. Our samples of expenditures were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected.

### ***Conclusions***

We found that the expenditures to providers included in our testing were related to the districts Early Childhood Education Program, were reasonable, and were recorded properly in the district's accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also identified concerns in the state funding process and overall monitoring of the program which may have statewide implications. These issues will be addressed in an audit of the program at the state Department of Education level.

## **Criminal History and Child Abuse Background Checks**

**P**roviders need to ensure that employees have criminal history and child abuse background checks.

We reviewed employee files at community based providers for evidence that employees had undergone a Criminal History Record Information (CHRI) background check as required by the Abbott preschool contract and state statute. We also reviewed files for the Child Abuse Record Information (CARI) background check as required by state administrative code. Our review of four providers found that 19 of 77 employee files contained no evidence of a CHRI background check and 18 of 77 files lacked evidence of the CARI background check. Employees without proper clearances should not be permitted to work at provider locations. The obligation to obtain the background checks rests with the providers. The district discontinued monitoring for compliance with the contract and state statute because of staff shortages and the reallocation of staff resources to teacher mentoring. This condition could result in potential liability to the provider and the school district. When we brought this matter to the district's attention, it began developing plans to re-institute monitoring.

### ***Recommendation***

Providers should ensure that all employees receive the CHRI and the CARI background checks that qualify them for employment in the child care center. The district should proceed with its plan to monitor providers for compliance.

### ***Auditee's Response***

The district has developed a form that providers must complete, listing all employees, as well as a statement of assurance confirming that these staff members have had a criminal history record information background check (CHRI). At the present time, there is a problem with the CHRI vendor that is completing the background check. Some staff members have been waiting for over five

months for a response to their background check. The CARI will be monitored by DHS.



## **Provider Insurance Compliance**

**The district should monitor providers for insurance coverage.**

The Abbott preschool contracts require providers to meet certain general, comprehensive automobile, and employers' liability insurance criteria. The policies must name the Camden Board of Education as an additional insured. The providers must also have workers' compensation insurance and an employee fidelity bond.

Our review found that three of the four providers tested were not in compliance with some contractual insurance requirements. Two did not name the board as an additional insured in their general liability insurance and comprehensive automobile liability insurance policies. Two lacked the required minimum insurance coverage for comprehensive automobile liability insurance. In addition, one provider was covered under the New Jersey Tort Claims and Contractual Liability Acts, but had no policies in compliance with the contractual insurance requirements. Failure to comply could subject the district to additional risk resulting from litigation. The district discontinued monitoring for insurance coverage because of staff shortages and the reallocation of staff resources to teacher mentoring. When we brought this matter to the district's attention, it began developing plans to reinstitute monitoring.

### ***Recommendation***

Providers should comply with insurance requirements as outlined in district contracts. In addition, the district should proceed with its plan to monitor providers for insurance compliance.

### ***Auditee's Response***

The district will monitor providers to ensure that every provider has the insurance required as outlined in the district contract. Many providers did not have

automobile insurance because they do not transport any children. The 20003-2004 contract states that automobile insurance is only needed if the provider is transporting children. Copies of all insurances will be kept on file in the Department of Early Childhood.



### **Provider Financial Records**

**P**rovider financial records should support program costs.

Contractual provisions require that providers maintain a financial management system that provides timely, accurate, current, and complete disclosure of all financial activities. These records should be made available for inspection by the district, the state, and their designee.

We were able to review the financial management systems in place at three of the four providers tested. The costs for the Abbott educational services were blended with those for wrap around services. The providers could not determine the amount of expenses relating to a specific program. Financial reports and records provided to us did not show direct expenses and the allocation of indirect expenses relating to the 180 six-hour days of educational services. Therefore, we could not determine the amount and propriety of expenses applicable to the program.

We tested non-payroll disbursements for three providers with financial management systems and found that 13 percent were not allowable to the program. These included payments for activity and services occurring during the summer months. We also noted 69 percent of the payments were not allocated between the 180 six-hour days of educational services and 245 days of wrap-around time.

The fourth provider had no financial management system or financial statements. The provider administered the cost of all programs in a single

checking account. Check registers, bank statements, canceled checks, and other support documentation were not provided as evidence of revenue and expenditure. Our review of files indicated serious concerns relating to the viability of the provider. Federal payroll tax deposits and payments were not made for 2001 and the quarter ending June 30, 2002. The provider advised us that the tax returns were filed and payment arrangements were being made with the Internal Revenue Service. The provider could not substantiate the payment of state payroll taxes for calendar year 2001 and the quarters ending March 30, 2002 and June 30, 2002. In addition, public utilities and telephone accounts contained past due amounts because of sporadic payments which also resulted in notices to shut off services.

Personnel cost was a major component of program costs for the four providers reviewed. The district had a system to budgetarily determine teacher cost based on the level of education. However, it did not follow up to compare budgeted to actual costs. Staff salaries for Abbott classes of tested providers were not prorated for the 180 six-hour days of educational services and 245 days of wrap-around time. There was no formal documentation of staff assignments and hours worked in order to allow for this proration. Informal staff lists were prepared for us based on the providers recollection during our field work. We noted that one director was not included in the center's payroll but instead withdrew money when necessary. One director at another provider was also being paid to teach as a substitute.

There are no procedures at the district to ensure the fiscal accountability of the providers. Furthermore, there is no monitoring to ensure that provider expenditures are appropriate and commensurate with program goals. The district has recognized this need and intends to hire a budget specialist who will act as a liaison with the community providers on financial aspects of the program.

***Recommendation***

The district should develop procedures to ensure compliance with contractual requirements and the fiscal accountability of community providers. Providers' financial records should show direct expenses of the program and the allocation of the indirect expenses relating to the 180 six-hour days of education services. Expenses should be supported by documentation which is maintained and available for inspection by the district and other necessary parties. Expenses that are not program related should not be charged to the program.

***Auditee's Response***

The year in question, 2001-2002 school year, was the year child care centers were directed by the Department of Education to use blended funds. DOE and DHS funds were blended together to fund the entire 245 day program. This was appropriate according to the 2001-2002 contract.

On May 28, 2003, the district hired an accountant for Early Childhood. The accountant will work with the community providers helping them to set up their accounts as well as assuring the expenses of the 180 day educational program are kept separate. As outlined in the 2003-2004 Abbott Preschool Educational Contract, providers will submit a quarterly financial report to the accountant with all supporting documentation to verify their expenditures.

