

**NEW JERSEY DEPARTMENT OF EDUCATION  
OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE  
EARLY CHILDHOOD PRESCHOOL EDUCATION FISCAL REVIEW RESPONSE  
CORRECTIVE ACTION PLAN**

CAP# ECE-004-16

NAME OF SCHOOL DISTRICT      East Orange District

COUNTY: Essex

TYPE OF EXAMINATION:      Early Childhood Preschool Education Program  
Office of Fiscal Accountability and Compliance (OFAC)  
Report of Examination (Date)

OFAC Case# 004-16

DATE OF BOARD MEETING: June 13, 2017

PROVIDER CONTACT INFORMATION:    PROVIDER    LITTLE ONES                      DIRECTOR    Joan Gorham  
ADDRESS    43 Prospect Street, East Orange New Jersey 07017  
TELEPHONE    (973) 395 -2727    FAX (973) 395-3707

FINDING/ RECOMMENDATION NUMBER	FINDING	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
1. NJDOE Preschool Education Program	DOE Preschool Education Program  OFAC identified \$345,051.00 in underspent NJDOE preschool education program funds. The district withheld \$28,797.00. OFAC recommends the district recover the	Reviewed the issues stated in the OFAC report for 2015-2016 quarterly expenditure reports  Validated increase of \$212,024.18 to salary lines for adjustments to gross amounts and reduced current unspent funds of	Analyzed the supporting documentation in question and validated gross salary expenditures on the attached FY2015-16 Provider Personnel Salaries Scheduled. The district will not be renewing this provider's contract for	The Little Ones Board of Trustees, Preschool Supervisors and Fiscal Specialist	April 14, 2017– Start date  June 30, 2017– Completion date

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	<p>underspent NJDOE funds totaling \$316,254.00 and review the following issues and make the necessary adjustments.</p> <p>The director signed the quarterly expenditure report certifying it was accurate and complete with all of the supporting documentation. However, during the OFAC review, the provider did not submit all of the requested supporting documentation, including the complete 12 months of payroll registers, the New Jersey Quarterly Earnings</p>	<p>\$316,254.00 to \$104,229.82 (\$316,254 - \$212,024.18) for recoupment by the district</p> <p>Aggressively seeking additional funds to pay payroll taxes though ADP and receive the appropriated payroll registers for submission to the district and OFAC. Consequently, an infusion of additional funds will alleviate the financial burden and restore stability</p>	<p>the FY2017-18</p> <p>To receive and deposit into The Little Ones' operating account a check in the approximated amount of \$400,000</p>	
				<p>April 26, 2017– Start date</p> <p>October 31, 2017– Completion date</p>

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<p>2. The investigator noted evidence of financial difficulties and lack of fiscal controls</p>	<p>Reports (NJWR-30s), the 2014 and 2015 independent audit reports, and some of the invoices to support a sample review of the indirect cost line items.</p> <p>District's recoupment for FY2014/15 and FY2015/16, \$235,910.34 over two fiscal years</p> <p>2007 &amp; 2008 Independent audit: *IRS tax payment plan – balance of \$163,552 as of October 2014 * State of NJ Division of Taxation – delinquent employee</p>	<p>To continue the established installment agreement with the District</p> <p>*To continue the established installment agreement with the NJDOL</p>	<p>Will continue monthly submission of \$8,067.53 to the district</p> <p>*Will continue to pay \$500 monthly installments</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p> <p>The Little Ones Board of Trustees</p>	<p>July 2016 – Start date</p> <p>June 30, 2018– Completion date</p> <p>December 3, 2014 – Start date</p> <p>Ongoing</p>
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	<p>withholding tax for 2009 and 2010 *NJ DOL and Workforce Development – 12 installment of \$500 &amp; final payment of \$202,707 *September 2012 – refinanced mortgage in the amount of \$2,256,685 and 2nd mortgage in December 2015</p> <p>Non-payment of expenditures</p> <p>* New Jersey Department of Labor (DOL), Division of Employer Accounts, the provider owed approximately \$224,000.00 based on an Employer</p>	<p>*Will utilize additional funds to make back payment on mortgage</p> <p>*To continue the established installment agreement with the NJDOL</p>	<p>*To Negotiate a payment plan with New Jersey Community Capital</p> <p>*Will continue to pay \$500 monthly installments</p>	<p>The Little Ones Board of Trustees, Preschool Supervisors and Fiscal Specialist</p> <p>The Little Ones Board of Trustees</p>	<p>June 30, 2017– Start date</p> <p>October 31, 2017– Completion date</p> <p>September 1, 2016– Start date</p> <p>Ongoing</p>
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	<p>Accounts audit done in 2009.</p> <p>In addition, based on a review of the NJWR-30s. DOL investigator indicated the provider had "wildly different payrolls." As a result, the provider has been referred to the Chief Auditor at the DOL for review.</p> <p>*Payroll was not processed through Automated Data Processing, Inc. The director stated the provider was not financially able to process the payroll registers during the pay period ended December 30, 2015,</p>	<p>Reduced employees' pay for personal/sick time ineligible for compensation. This resulted in varied payrolls</p> <p>*Infusion of additional funds will alleviate the financial burden to process payroll through ADP in a timely fashion</p>	<p>Continue to record appropriate payroll deduction</p> <p>*To Submit payroll transmittal to ADP 24 hours before payday. Timely reporting of payroll will promote accuracy in reconciliation of salaries reported on the NJWR-30s salaries paid to employees</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p> <p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p>	<p>September 1, 2017– Start date</p> <p>Ongoing</p> <p>September 1, 2017– Start date</p> <p>Ongoing</p>
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	<p>through June 30, 2016. As a result, the provider did not submit payroll registers to the OFAC for that period of time and submitted copies of checks in the amount of the net pay which were issued to the employees through the accounts payable system. The NJWR-30s Submitted by the DOL to the OFAC did not reconcile to the salaries paid to the NJDOE funded employees.</p>				
	<p>*A sample review of the expenditures and the supporting invoices revealed late fees, unpaid</p>	<p>*Infusion of additional working capital will promote timely payment of invoices</p>	<p>*Approves control sheet and invoice for payment by due date. The control sheet and the invoice will be</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and</p>	<p>June 30, 2017– Start date  Ongoing</p>

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	<p>invoices, carry-forward balances and shut-off notices. The PSE&amp;G invoice for June 2016 included carry-forward balances from several months prior of approximately 20,000.00. In some instances, payments to vendors were made based on a work order or proposal rather than an actual invoice.</p> <p>*A review of the bank statements revealed instances of negative cash balances, numerous overdraft fees and stop-payment fees. In addition, during the 2015-2016</p>	<p>*Improves cash management system to track cash inflows and outflows for better control on cash balance</p>	<p>matched prior to the approval by the designated Board Member</p> <p>*Monitoring of bank balance on a daily basis</p>	<p>Fiscal Specialist</p> <p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p>	<p>June 7, 2017– Start date</p> <p>Ongoing</p>
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	<p>contract year, the custodian used a debit card for purchases which totaled approximately \$60,000.00. Several transactions were not supported by receipts. *A review of the general ledger included cash transactions which totaled approximately \$13,000.00. A sample review of the transactions revealed the checks were written out for cash and, in most cases, for an amount higher than the invoices. The supporting documents from the provider did not</p>	<p>*Stop issuing checks to cash without adequate support. The receipts and all other pertinent support documents will agree with issued checks</p>	<p>*Will issue checks only to specific payee at all times based on valid support documents</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p>	<p>June 6, 2017– Start date  Ongoing</p>
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	<p>appear to be legitimate invoices.</p> <p>Although the review revealed non-payment of several expenditures, the director's compensation was significantly higher than the NJDOE funded salary of \$126,972.00 during the 2015-2016 contract year. A review of the Internal Revenue Service Forms W-2s for the tax years 2014, 2015, and 2016, revealed the director received \$229,027.00, 202,120.00 and \$185,972.00, respectively. The</p>	<p>*Will and currently pays director in accordance with the NJDOE funded salary guide of \$126,972 for the preschool program share. Additional compensation was charged to DHS and Toddler and Wrap around programs.</p> <p>Will reduce vacation days on The Little One's policy vacation, and personal days.</p>	<p>*To reduce, by The Little Ones Board of Trustees, director's salary</p> <p>To modify The Little One's Policy to reflect the reduction in employees' benefits</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p> <p>The Little Ones Board of Trustees</p>	<p>September 1, 2017– Start date</p> <p>Ongoing</p> <p>September 1, 2017– Start date</p> <p>Ongoing</p>
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	<p>director indicated the 2014 compensation was for the NJDOE preschool education program, the DHS wrap-around program and unused vacation days. The director's benefit plan included 16 weeks of vacation, 30 sick days and 20 personal days, equivalent to 130 paid days off. The excessive compensation was previously identified during the OFAC review of the 2010-2011 contract year and contributes to the provider's ongoing financial difficulties.</p>				
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3. The investigator detected accounting irregularities	The provider did not have a current independent audit performed.	Performing audits	Engaged a CPA to perform audits for incremental years as required by OFAC	Obenga Olabatin, CPA and The Little Ones Board of Trustees and Accountant	September 1, 2016– Start date  On going
	The financial activities related to the NJDOE funded preschool program were not maintained separately from other funding sources, and funds/transactions were commingled with other personal and business activities (see Section III, Financial Management System, of the contract). A review of the bank statements and the general ledger	To separate general ledgers DOE, Wrap Around and Toddler programs  It must be noted that the charges indicated by OFAC were not charged to NJDOE for reimbursement, hence were paid out of Toddler and Wrap around funds.	To create separate sub-ledgers to record the appropriate split costs for DOE, Wrap Around and Toddler programs  Prompt posting and reconciling of payroll register will uncover errors	The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist	September 1, 2017– Start date  On going

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	<p>revealed non-allowable costs, including the purchase of a Dodge Caravan, a Chevy School Bus and automobile repairs which totaled \$10,630.00; legal fees for \$15,489.00; payments in the amount of \$6,429.00 for fundraising services; payments to employees for 2015 "State/Federal Refund Reimbursement" which totaled \$5,247.00; an employee tuition reimbursement for \$1,500.00; and \$150.00 for a car service for the director.</p>				
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	<p>The provider did not maintain a financial management system that provided timely, accurate, current and complete disclosure of all financial activities related to the NJDOE funded preschool education program.</p> <p>*A review of the field trip line item revealed the provider expensed field trips transportation for the summer months while the provider received private funding for the expenditures.</p> <p>*A sample review of the indirect cost line items revealed the expenditures</p>	<p>To reassess and improve financial management system</p> <p>*To increase overview of charges in order to eliminate inappropriate allocation of field trip cost to DOE rather than Infant/Toddler Program</p> <p>*Increase monitoring process of monthly transactions</p>	<p>Reviews thoroughly monthly salaries and other entries to identify exceptions in the report and record the necessary adjustments within the appropriate accounting period</p> <p>Review by center director to ensure appropriate charging of program cost</p> <p>Board of Trustees will use equitable method by making the same health plan available to</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p> <p>The Little Ones' director and Accountant, and Fiscal Specialist</p> <p>The Little Ones Board of Trustees and Accountant, Preschool</p>	<p>June 6, 2017– Start date  Ongoing</p> <p>June 6, 2017– Start date  Ongoing</p> <p>June 6, 2017– Start date  Ongoing</p>
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	<p>reported on the quarterly expenditure report did not reconcile on a monthly or yearly basis to the entries posted in the general ledger or the schedule of expenditures prepared by the provider. In addition, there were some missing invoices and expenditures misposted in the general ledger.</p> <p>A review of the salary line items revealed the payroll documentation submitted did not reconcile to the salaries reported on the quarterly expenditure report.</p>	<p>Improve the preparation process of the quarterly expenditure report in reference to the payroll charges</p>	<p>all employees. *Thoroughly reconcile payroll registers to the general ledger in a timely fashion</p> <p>Review thoroughly the monthly salaries on the payroll registers, and the general ledger to prove accurate posting to the quarterly expenditure report</p>	<p>Supervisors and Fiscal Specialist</p> <p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p>	<p>June 6, 2017– Start date</p> <p>Ongoing</p>
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	<p>A review of the benefit line items revealed the benefit expense was not reported accurately compared to the actual benefit invoices and did not reflect the employee contributions. In addition, the provider did not submit payroll registers from December 15, 2015, through June 30, 2016, to verify the contributions on behalf of the employees.</p> <p>The provider's policy for benefits was not a uniform policy based on an equitable standard of</p>	<p>Reviewing benefit policy for a better equitable treatment.</p>	<p>Revamping Benefit policy by Board of Trustees to use an equitable method by making the same health plan available to all employees</p>	<p>The Little Ones Board of Trustees and Accountant, Preschool Supervisors and Fiscal Specialist</p>	<p>June 6, 2017– Start date</p> <p>Ongoing</p>
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	<p>distribution within each class of employee and did not consistently reconcile to the benefits offered and the employee contributions. The provider did not demonstrate that the same benefits were offered for the NJDOE funded teaching staff and the non-teaching staff. The director, the family worker and the custodian received health benefits which were more costly than the benefits offered to other non-teaching staff members. In addition, the director</p>				
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	<p>did not contribute to the benefits while all of the other NJDOE funded employees did contribute.</p> <p>A review of the payroll tax line items revealed the provider reported the payroll taxes based on the budgeted percentage rather than the actual costs. In addition, the bank statements did not reflect payments for the payroll taxes during the period of December 30, 2015, through June 30, 2016, while the provider was funded \$136,000.00 for payroll taxes.</p> <p>The director cited</p>	<p>Infusion of additional funds will alleviate the financial burden to process payroll through ADP in a timely fashion and promote the recording of accurate payroll taxes per payroll tax summaries</p>	<p>Process timely payrolls and tax payments due to increased working capital. Fosters recording of actual tax liability per payroll tax summaries within the appropriate accounting period</p>	<p>The Little Ones Board of Trustees and Accountant, and Fiscal Specialist</p>	<p>June 30, 2017– Start date</p> <p>Ongoing</p>
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	<p>cash-flow problems and stated the NJDOE payroll tax funding was used for expenditures related to the roof repairs. The City of East Orange condemned the building and placed a red sticker on the building, and the funds were needed to pay for the roof. The district reimbursed the provider for a portion of the expenditures, in addition to the insurance reimbursement</p>				
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**SUPPORTING DOCUMENTATION MUST BE SUBMITTED ALONG WITH THE CORRECTIVE ACTION PLAN**

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