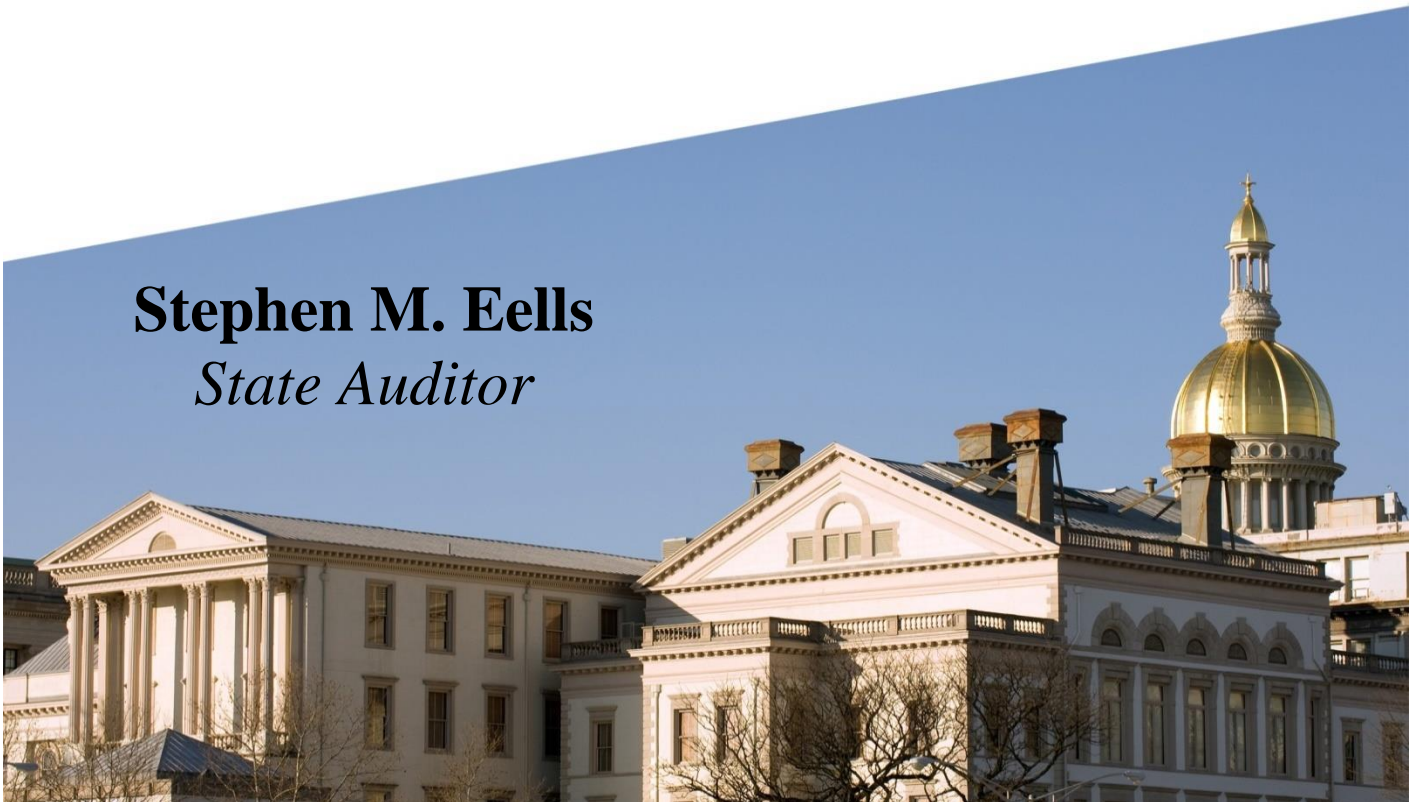


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OFFICE OF THE STATE AUDITOR

City of Camden School District

July 1, 2015 to February 28, 2018

Stephen M. Eells
State Auditor



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Enclosed is our report on the audit of the City of Camden School District for the period of July 1, 2015 to February 28, 2018. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in dark ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
January 15, 2019

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Scope

We have completed an audit of the City of Camden School District (district) for the period July 1, 2015 to February 28, 2018. Our audit included financial activities accounted for in the district's general fund and special revenue fund. We were unable to adequately audit the district's payroll transactions due to the lack of available documentation as certified to us by the district. Our audit also included a review of the district's compliance with provisions of the Urban Hope Act (Act) applicable to the district. We will issue a separate report on compliance with provisions of the Act applicable to the Department of Education.

Total expenditures per annual audited financial reports were \$375.8 million and \$385.7 million in fiscal years 2016 and 2017, respectively. In fiscal years 2016 and 2017, payments to charter schools were \$59.7 million and \$63.2 million, respectively, and payments to renaissance schools were \$35.7 million and \$52.1 million, respectively. Approximately 91 percent of the district's funding for fiscal years 2016 and 2017 came from state sources. The district provides regular, vocational, and special educational services to grade levels pre-kindergarten through 12. Total annual district enrollment was 15,864 and 15,957 for the 2016 and 2017 school years, respectively; with respective student enrollment of 9,288 and 8,138 in district schools, 4,403 and 4,921 in charter schools, and 2,173 and 2,898 in renaissance schools during these school years. The district has been under full state intervention since March 22, 2013. To avert a deficit in fiscal year 2017, the district requested and received emergency aid of \$9.8 million from the state.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the district's programs, were reasonable, and were recorded properly in the accounting systems. An additional objective was to determine the district's compliance with certain provisions of the Act.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes and Title 18A:7F-6(d), the "Comprehensive Education Improvement and Financing Act of 1996".

Methodology

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

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, federal regulations, and policies of the Department of Education and the district. Provisions we considered significant

were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the district's budget and the City of Camden School District Advisory Board (board) minutes, reviewed financial trends, and interviewed district personnel to obtain an understanding of the programs and the internal controls. In addition, we reviewed the annual audited financial reports of the district issued by public school accountants. Those reports contained an adverse opinion and a disclaimer of opinion for the fiscal years ended June 30, 2016 and 2017, respectively.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

The lack of continuity within and oversight of the district's business office functions has resulted in a lack of control and accountability of the district's finances. The lack of stability in administrative positions inhibited the development of long-term goals and the ability to establish and enforce internal controls to ensure district resources were expended in an efficient and effective manner and assets were properly safeguarded. The financial transactions included in our testing were related to the district's programs and were reasonable; however, they were not always properly recorded in the accounting system, and there were many instances when requested documents could not be provided. We found programs lacking internal controls and proper oversight, significant deficiencies in the procurement process, and other issues requiring corrective action. Certain provisions of the Act included in our testing were complied with by the district with the exception of those related to enrollment.

Certain transactions have been referred to the state's Division of Criminal Justice.

Renaissance Schools Enrollment

The current enrollment process has limited the participation of neighborhood students in renaissance schools.

Beginning with the 2016–17 enrollment process, the district implemented a centralized enrollment system called Camden Enrollment in which families can compare schools and apply to any district, charter, or renaissance school using one application. All charter and renaissance schools agreed to participate and only accept applications through Camden Enrollment. Applications can be submitted through Camden Enrollment’s website, in person, or over the phone.

Parents or guardians fill out the application and rank the schools they would like their child to attend. The application deadline was March 1, 2016 for the 2016–17 enrollment process and March 31, 2017 for the 2017–18 enrollment process. Students are matched to their highest ranked school in which space is available, taking into account various preference types such as neighborhood residency, sibling enrollment, and city residency. If applications exceed availability for a school, admission is awarded via a lottery. Students who are not matched to their first choice school are placed on the wait list for each school ranked above the school to which they were matched. Students who submit applications after the deadline are accepted to their highest ranking school where space exists on a first-come, first-served basis and placed on the wait list for any higher ranked schools. Once accepted, registration must be completed in person at the school.

Beginning in August 2017, Camden Enrollment became an independent non-profit organization. It is managed by former district employees and has a governing board with district, charter, and renaissance school representation. Camden Enrollment contracts with the district to provide enrollment services for Camden’s public schools. One charter school withdrew from Camden Enrollment effective June 30, 2017.

Automatic Enrollment

Renaissance schools were created through the Act. They are a hybrid of a charter and a district school because they have the operational autonomy of charter schools, but draw students from an established attendance area (neighborhood) similar to traditional district schools.

Per N.J.S.A. 18A:36C-8, renaissance schools shall automatically enroll all students residing in the neighborhood of a renaissance school built on land owned by the district or the New Jersey Schools Development Authority (SDA). The parent or guardian of a student may opt not to accept enrollment of the student in the renaissance school, in which case the student shall be eligible for enrollment at another school in the district. If space remains available at the renaissance school, students shall be selected for the remaining spaces through a lottery system. For renaissance schools built on land that is not owned by the district or SDA, students residing in the neighborhood receive preference in the enrollment process rather than automatic enrollment.

All buildings utilized by the renaissance schools during the 2016–17 school year and seven of ten utilized by the renaissance schools during the 2017–18 school year were on land owned by either the district or SDA; however, we found neighborhood students were not automatically enrolled in their neighborhood renaissance school, where applicable, in accordance with the Act. Instead, the enrollment process for all renaissance schools was implemented by the district as a choice program, requiring parents and guardians to opt in if they prefer their child attend a renaissance school. Renaissance school neighborhoods overlap with those of traditional district schools, creating ambiguity as to which neighborhood school a student is entitled to attend.

Under the current process, students are guaranteed a seat in their neighborhood district school but only receive preference at their neighborhood renaissance school. Although students are required to submit an application through Camden Enrollment to be eligible to attend a renaissance school, no application is necessary to attend the neighborhood district school. Without a requirement that all district students apply through Camden Enrollment, the district cannot prove that all parents and guardians were adequately informed of their child’s eligibility to attend or if they opted not to accept enrollment in their neighborhood renaissance school.

The current policy could result in a higher concentration of students with actively involved parents or guardians being enrolled in renaissance schools. Their involvement is generally regarded as a key indicator of a student’s academic success, therefore differences in academic outcomes between district and renaissance students may not be a fair comparison.

Neighborhood Participation

The Camden Enrollment process has left the district with fewer than half of neighborhood students being enrolled in their neighborhood renaissance school. We reviewed renaissance enrollment records from the 2016–17 school year and found that only 48 percent of enrolled students resided in their renaissance school’s neighborhood and only 26 percent of all district and renaissance school students, residing in renaissance school neighborhoods, were enrolled in their neighborhood renaissance school.

In the 2016–17 enrollment lottery, 461 students were accepted to renaissance schools. Of these students, 247 (54 percent) resided in the neighborhood of their renaissance school. In the 2017–18 enrollment lottery, 838 students were accepted to renaissance schools. Of these students, 387 (46 percent) resided in the neighborhood of their renaissance school. Overall, less than half of students accepted to renaissance schools (49 percent) through the enrollment lottery process for the 2016–17 and 2017–18 school years were from the renaissance school’s neighborhood.

All neighborhood students who submitted applications by the deadline for the 2016–17 lottery were accepted in their neighborhood renaissance school; however, 47 students who applied by the deadline for the 2017–18 lottery had to be placed on their neighborhood renaissance school’s wait list. As of October 2017, there were 195 students on the wait list for their neighborhood renaissance school.

The Act gives priority to returning students in the enrollment process. Once a student is accepted at a renaissance school, their seat is guaranteed as they advance from one grade level to the next. For this reason, kindergarten enrollment is critically important, as it is the only grade level where there are no returning students and all seats are open. If neighborhood students are not accepted in the renaissance school for kindergarten or submit an application after the deadline, their chance of acceptance is diminished.

Our analysis of 2016–17 enrollment records at renaissance schools found that only 48 percent of kindergarten students were from their neighborhoods. The high percentage of students from outside of the renaissance school neighborhood creates a barrier to enrollment of neighborhood students who miss the application deadline or move to the neighborhood after kindergarten.

Recommendation

We recommend the district comply with the Urban Hope Act and coordinate with renaissance schools to automatically enroll students residing in the neighborhood of renaissance schools built on land owned by the district and SDA. The district should eliminate neighborhood overlap between these renaissance schools and traditional district schools. We recommend the district process all enrollment applications, including those for district schools, through a centralized enrollment system. The district should make further efforts to improve participation of neighborhood students in renaissance schools, which could include extending the deadline to submit an application and reserving seats for students who miss the deadline or move into the neighborhood. Special emphasis should be placed on the enrollment process for neighborhood kindergarten students.



Renaissance School Reimbursements

The district failed to monitor for reimbursement and fully recover costs under agreements with renaissance school operators.

Cost Reimbursements

The district provided shared custodial and security services and leased facilities and facility space to renaissance school operators. We noted that agreements did not always require utilities to be transferred to the renaissance school operators' names nor did they include reimbursement schedules. We also noted payment schedules were not always followed. We reviewed \$2.5 million in reimbursements received during our audit period and noted the following.

- Reimbursement of \$39,561 for electric bills from fiscal year 2015 was not recovered by the district until July 2017.
- Reimbursement of \$1,039,127 for shared custodial services provided between August 2015 and June 2016 was not recovered until December 2016.

- Reimbursement of \$939,148 for shared custodial services provided between August 2016 and June 2017 was billed in September 2017 and received in October 2017.
- Reimbursement for utility bills totaling \$310,635 was recovered in June 2017 for services between July 2015 and June 2016.
- Reimbursement of \$104,796 for utilities at a district building with shared space was billed in May 2017 and received in July 2017 for costs incurred between August 2015 and March 2017.
- Reimbursement of \$69,134 for shared security services between August 2016 and June 2017 was billed in September 2017 and received in October 2017.

The district's failure to promptly request reimbursement for expenses incurred under these agreements effectively provided the operators of the schools with interest free loans.

Shared Custodial Services

The district provided custodial services for renaissance schools through shared service agreements. District custodians were assigned to work at several renaissance school locations. Agreements state that the renaissance school shall pay the district the full cost of the custodial services; however, these costs were capped at estimated amounts of \$1,007,812 and \$1,023,441 in fiscal years 2016 and 2017, respectively.

We estimate the district's full payroll cost related to custodial employees assigned to renaissance schools exceeded reimbursed amounts for fiscal years 2016 and 2017 by \$245,000 and \$217,000, respectively. These unreimbursed costs were the result of several errors and omissions in the district's calculation for the cost of these services. The district used an incorrect payroll tax rate and failed to include overtime, shift coverage for call-outs, or the employer share of the pension contribution in the calculation. Also, the calculation did not include all custodians who were assigned to the renaissance schools per a list provided to us by the custodial manager.

Potential cost recoveries are limited due to the capped payment amounts in the shared services agreements. As a result, the district may only be able to recover \$300 and \$108,000 of its unreimbursed costs for fiscal years 2016 and 2017, respectively. The district's failure to fully recover the cost of custodial services had the effect of subsidizing this operating cost for the renaissance schools.

Recommendation

We recommend the district include appropriate periodic payment schedules in their agreements with renaissance schools to ensure prompt reimbursement of costs paid on behalf of these schools. The district should ensure utility accounts for renaissance school facilities are transferred to the renaissance school operators. We also recommend the district seek recovery of unreimbursed

costs, and ensure that shared services agreements allow it to recover the full cost of services provided.



Early Childhood Program

The Early Childhood Program procedures and controls over review and approval of contract and special request payments need improvement.

The district offers full-day preschool programs to all resident 3- and 4-year-old children at no cost. Preschool programs are also offered by private providers who receive funding from the district. Total expenditures of the preschool program for the 2016–17 school year were approximately \$31.2 million including payments to 11 private providers totaling \$14.9 million. Our review of payments to private providers noted the following issues.

Contract Payments

According to the compensation clause in the private provider contract, “From October through June, in the event the average daily enrollment for the month is less than fourteen-fifteenths (14/15) of the number of contract slots, the amount due the following month under the contract shall equal the monthly amount multiplied by the average daily enrollment for the month, divided by the number of contract slots.” Our review disclosed the district did not make the required payment adjustments to three providers in accordance with the terms of their contract. Total overpayments for the contract period from September 2016 through June 2017 were \$281,921.

Special Requests

While performing our review of adjustments to providers, we observed payments to some providers for “special requests” to cover costs associated with such items as infrastructure improvements, which were in addition to the monthly contractual payments that the providers received for the preschool program. Monthly contractual payments cover costs related to facilities; however, the district will approve special requests if they are a matter of health and safety, and if funding is available.

According to the Department of Education (DOE), district personnel should work with providers to develop a one-year budget to reflect projected costs to deliver a preschool program meeting all state standards. Special requests may be made by providers to pay for costs associated with unbudgeted items. Since the DOE no longer approves special requests, the districts should create their own process and may utilize the old DOE guidelines in forming their policies and procedures. However, the district does not maintain formal written procedures for special requests by their providers.

We selected a payment of \$74,713 for a detailed review since this transaction was the largest payment to a provider for special requests during the 2016–17 school year. The requests included

the replacement of hot water heaters, the replacement of two roofs, installation of security cameras at three locations, and the installation of a kitchen hood and fire suppression system. Our review of these special requests disclosed many issues presented below that warrant attention.

Provider Documentation

The special requests for this payment were submitted to the district's Early Childhood office over a nine-month period. The requests were vague with insufficient detail regarding why these items were necessary for the health and safety of students. The requests also lacked the proper number of bid quotes and supporting documentation required for this type of expenditure.

District Approval

In a letter to the provider, the district approved the costs for the hot water heaters, roofs, and the kitchen hood and fire system but not the security cameras. Our review of this letter found it appeared to have been altered and that the approval was never formally granted since the provider was paid for the security cameras even though it was not included on the letter. The payment for these cameras; however, was subsequently refunded to the district. Our review of supporting documentation for the roof replacement showed no justification as to why a different and higher bidder was selected to complete the job. After we notified the program's accountant (accountant) of our concerns, she informed us the district was recovering the funds, and the provider had agreed to the repayment. In addition, the hot water heater proposal included more items than just the hot water heater; it also included repair for several water leaks, a gas leak, and troubleshooting for a fryer. We noted that the provider's facility was used for a culinary program in addition to the preschool. The district should not pay the full cost for these types of expenses when the facility is used by other programs.

Payment Process

Invoices from providers are sent to the accountant in the district's Early Childhood office via email. Invoices are reviewed for accuracy by the accountant who then forwards them to accounts payable. The accounts payable office does not scrutinize the invoices, but relies on the previous review of the accountant. Once checks are printed, the accountant distributes them to the providers who must sign for the checks.

The special requests were paid using excess funds on the approved purchase order for the preschool program budget, which would not include special request items. This allowed the accountant to circumvent the district's procurement procedures. Special requests should go through regular procurement procedures. We found no evidence that any district staff members, including the Early Childhood Director and the Business Administrator, reviewed these special requests before payment. Excess funds were only available on the purchase order because the provider had lower enrollment than their contracted capacity.

The accountant is involved in the approval of special requests, adjustment of invoices, payment approval, as well as the distribution of checks. The Director is not involved in any part of the

process. This lack of checks and balances and segregation of duties represents a weakness in accounting procedures and increases the risk of inappropriate transactions.

Recommendation

We recommend the district properly adjust its payments to preschool providers when their enrollment is less than required under contract and recover all overpayments. The district should also establish formal written procedures for special requests requiring the Early Childhood office to follow proper procurement procedures, segregate duties over the payment process, and establish a proper system of checks and balances to help ensure that no single person has control over this process.



Internal Controls

Controls over expenditures need to be strengthened.

Per N.J.A.C. 6A:23A, management is responsible for establishing specific internal control policies and procedures designed to provide management with reasonable assurance that the district's goals and objectives will be achieved. Internal controls shall promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with laws and regulations.

The district's business office has been negatively impacted by frequent turnover within managerial positions. The lack of employee continuity has disrupted the internal control system in place. During our 32-month audit period, the School Business Administrator position was held by three different individuals. Also, the Assistant Business Administrator, Comptroller, Payables Manager, and Senior Payroll Manager positions have been abolished. Additionally, 23 upper-management employees separated from employment with the district. The average length of time these employees worked for the district was three years. This turnover has contributed to the erosion of internal controls.

We judgmentally tested 30 expenditure transactions totaling \$4,985,192 for fiscal years 2016 and 2017 and noted the following weaknesses.

Confirming orders, in which purchase orders were approved and created after the date of service, should only be allowed in an emergency situation as per district policy. We noted confirming orders were used for 7 of the 30 expenditure transactions tested totaling \$2,138,643. Included in these transactions were three payments against recurring contracts that the district should have been aware of and should have established purchase orders to promptly commit the necessary funds. The first of these transactions was for a teacher professional development contract for \$540,716. In October 2015, the district awarded a contract to the vendor for 2015–16 school year services for an amount not to exceed \$648,300; however, it did not obligate funds for these services until May 2016, when payment was being processed. The second transaction was for

substitute teaching services for \$965,588. The district authorized a contract to pay for these services in July 2016. Services began in September 2016; however, the district did not establish a purchase order to pay for these services until December 2016. The third transaction was for a payment of \$537,853 on an annual tuition contract approved in September 2016 for an amount not to exceed \$2,698,266. The district did not commit funds for the 2016–17 school year until October 2016 for services which began in September 2016.

Our test also disclosed several questionable transactions. In one transaction, an accounting firm was paid \$39,999 for reconciliation and audit preparation services which was just below the required bid threshold of \$40,000. The district selected the highest bid for these services. Part of the payment was for an estimated travel expense of \$5,000 because the vendor was traveling from the Boston area. The final agreement for the total cost of services was for \$35,000; however, a \$4,999 increase was approved prior to the work being started. This amount was not included in the original agreement but was added to cover additional accounting expenses, of which there was no documentation. The district could not provide details because the approvals were made by the former interim School Business Administrator and the former Budget Director who no longer work for the district. Also, of the 11 items in the scope of work for which the accounting firm was hired, only 1 was fully completed and only 2 were partially completed. The remaining 8 items were not completed at all.

In a second transaction, the Hi-Nella School District was paid \$187,500 for services acquired under a shared service agreement which allowed proper bidding procedures to be circumvented (see Hi-Nella School District Shared Service Agreement on Page 13). Additional sample transactions tested also did not have adequate documentation to support compliance with bidding procedures, including four instances where copies of the request for proposal were not maintained and six instances lacking proper bid quotes.

Along with the transactions in our test, we identified an additional \$812,877 in prior year expenses recorded in fiscal year 2017. Due to this irregularity, we expanded our review and noted several items on the September 26, 2017 Advisory Board Agenda Report during fiscal year 2018 that were expenditures from fiscal year 2017. Six contracts were amended by a total of \$268,129 for services performed during the 2016–17 school year. These services were not authorized until three months after the end of fiscal year 2017.

The use of confirming orders as a common practice leaves management with unreliable financial information for decision making and for controlling spending. The failure to record all obligations promptly could result in unrecorded liabilities and cause the district to overspend budgeted funds.

Recommendation

We recommend the district establish strong internal controls that promote operational efficiency and effectiveness, encourage adherence to prescribed policies, and comply with laws and regulations. The district should take necessary actions to discontinue the usage of confirming orders by committing funds promptly, which would prevent recording transactions in the

improper fiscal year. It should also acquire and maintain all required documentation such as a request for proposal and bid quotes before selecting a vendor.



Alternative School Programs

Accurate enrollment estimates and improved performance monitoring could reduce program costs and enhance student achievement.

We reviewed the Education Service Agreement entered into by the district with a vendor to operate the district's alternative school. The alternative school includes two programs. The Accelerated Program permits over-age or under-credited high school students to earn credits at an accelerated pace so they can graduate on time. The Transitional Program provides schooling for students in grades 7–12 with behavioral or disciplinary problems. The fiscal year 2017 contract with this vendor was for a flat yearly fee of \$1,638,104 for up to a maximum capacity of 300 students.

The programs are run in district facilities and utilize district staff including teachers, custodians, nurses, and security guards. Total salary costs approximate \$2.3 million. The district also provides supplies, textbooks, computers, as well as facilities, transportation, and food services. The vendor provides the program, administrators and behavioral specialists, and training for district teachers working in the alternative school.

Our audit disclosed that for the 2016–17 school year, the vendor was approved to enroll up to 200 students in the Accelerated Program, however, only 150 students were enrolled. The vendor was also approved to enroll 100 students in the Transitional Education Program, however, only 52 students were enrolled. The district could have reduced its costs if the contract had included provisions to adjust fees based on actual enrollment.

The district failed to adequately monitor its alternative education program vendor payments. Our review disclosed an overpayment of \$151,300.93 in fiscal year 2017. The payment was for services provided under a prior contract which had already been paid-in-full.

The district's contract with the vendor defines metrics by which performance is to be measured as well as deliverables to be provided. During our survey, we requested from the district, documentation of these metrics as well as the required deliverables. The district was unable to provide us evidence of monitoring of the vendor's performance. We obtained monthly reports from the vendor which highlighted program statistics such as enrollment and student improvement. We compared performance metrics to reported amounts for the 2016–17 school year and found metrics such as improved attendance and graduation rates were not achieved. We noted the vendor did not meet all performance metrics specified in the contract. In all, four of the seven metrics tested were not achieved for the Accelerated Program and five of the seven metrics tested were not achieved for the Transitional Program.

The district added a provision to the 2016–17 school year contract requiring the vendor to have an independent third-party evaluation report prepared for the program. No such report was received by the district during our audit.

It should be noted the district has taken over the management and daily operations of the alternative school programs beginning in the 2018–19 school year. The operating budget for the instructional alternative education program is \$280,000.

Recommendation

We recommend the district continually assess the effectiveness and efficiency of operating the alternative school program in-house. Should the district contract for these services in the future, we recommend the contract include the ability to adjust for variances, adequately monitor its alternative education program to ensure that no overpayments are issued, and ensure contract metrics are successfully achieved or a third party evaluation report of the program is properly performed.



Camden County Technical Schools Tuition

Improved contract monitoring is needed to ensure proper inclusion of tuition adjustments.

The district has an annual tuition contract with Camden County Technical Schools (CCTS) to provide vocational and technical education to its high school students. Average annual tuition payments were \$2.7 million in the 2015–16 and 2016–17 school years. Monthly payments are made throughout the year based on an estimated number of students at an estimated tuition rate. At the end of the school year, CCTS is required to calculate an adjustment based on the variance between estimated and actual enrollment. If the actual enrollment is less than the estimated enrollment, the district is due a refund. When the Department of Education (DOE) releases the certified tuition rates, CCTS is required to calculate a second adjustment based on the variance between estimated tuition rate paid by the district and the certified tuition rate. If the certified tuition rate is less than the estimated tuition rate, the district is also due a refund.

Our review disclosed that the district received a \$1.1 million tuition credit for the rate difference during the 2015–16 school year which was applied against the 2017–18 school year contract. The district is still owed a refund from CCTS of \$4,220,328 for the 2013–14 through 2016–17 school years. It did not receive adjustments for the variance between the actual average daily enrollment and the estimated number of students enrolled for the 2015–16 and 2016–17 school years. Also, from the 2013–14 through 2015–16 school years, the estimated tuition rate was significantly higher than the certified tuition rate. As confirmed by DOE, it is the responsibility of CCTS to issue a refund to the district when the estimated rate is greater than the certified tuition rate.

Management was unaware that the district should receive any refund resulting from the enrollment and tuition rate variances and acknowledged that this program was not being

adequately monitored. Additionally, as of January 2018 the district had not made any payments to CCTS for the 2017–18 school year and had not issued a purchase order, even though the services began in September of 2017.

Recommendation

We recommend that the district seek the refund they are due and begin monitoring the vocational program to ensure adjustments for the student enrollment and tuition rate variances are properly performed by CCTS. The district should also ensure a purchase order is issued prior to services being started and payments are made in a timely manner.



Hi-Nella School District Shared Service Agreement

Goods and services acquired under a shared service agreement included additional cost to the district and allowed bidding procedures to be circumvented.

The district began utilizing a shared service agreement (agreement) in May 2014 with the Hi-Nella School District for procuring goods and services. We noted that the district obtained goods and services through this agreement totaling \$3.0 million during the period May 2014 through June 2016. This amount included 15 purchases totaling \$2.6 million which exceeded the \$40,000 bidding threshold and would have required competitive bidding by the district had it not been for the agreement. The Hi-Nella School District, through the agreement, subcontracted work to vendors already directly doing business with the district. We questioned this arrangement in a separate audit of the Hi-Nella School District issued on June 21, 2016, which found the Hi-Nella School District did not always follow the required competitive bidding process and had a related party concern with the district.

The district did not perform its due diligence to ensure that the Hi-Nella School District followed competitive bidding procedures, and agreements contained appropriate contact terms. The Hi-Nella School District applied an average 10 percent markup to district-related projects. The estimated markup amount paid by the district for acquiring services through the agreement was \$275,242 from fiscal year 2014 through fiscal year 2016. The agreement did not include specific terms regarding the cost of goods and services and failed to disclose any fees or markups applied by the Hi-Nella School District; however, the district should have been aware of these issues as its former Assistant Business Administrator and Purchasing Agent was concurrently employed as the Hi-Nella Business Administrator on a part-time basis from July 2014 to June 2016. Since the Hi-Nella School District did not always follow the required competitive bidding process, the district effectively circumvented proper bidding procedures through its use of the agreement.

Recommendation

We recommend that the district perform its due diligence to ensure goods and services are procured in accordance with required competitive bidding procedures and that shared service

agreements contain appropriate contract terms to avoid unnecessary additional costs.



Non-Public School Grant Expenditures

The district's administration of services provided to non-public schools does not comply with grant regulations.

The district administers federal grants in which non-public schools may participate in the services available to the district. Federal regulations require the district to retain control of the funds. Services are to be provided by either a district employee or through a contract with an individual, association, agency, or organization independent of the private school and any religious organization. The employment or contract must be under the control and supervision of the district.

Our review of supporting documentation for all 2016 and 2017 fiscal year purchase orders disclosed payments were made without adequate support, purchase orders were created after services were rendered and procurements lacked proper bids or quotes. In addition, three vendors contracted to provide services to the non-public schools appear to be related parties and not independent of the non-public schools.

Procurement

During fiscal year 2017, the district paid a vendor \$23,525 for English Language Learners (ELL) program services even though hours worked by the staff were not properly supported and the number of days each program operated per the supporting documentation did not match the number of days per the vendor's bill. The ELL program services consisted of afterschool and parent outreach programs that were supposed to operate for 90 days and translation services for parent conferences and meetings. Support documentation for the afterschool program was only provided for 39 of the 90 days and for the parent outreach program for only 15 of the 90 days. No support was provided to us for 220 hours of translation services during parent conferences and meetings. In addition, only one quote was obtained for these services when, based on the dollar amount for this transaction, the district should have obtained at least two quotes.

During fiscal year 2017, the district paid \$55,000 for teacher mentoring and coaching services. The vendor billed the district at rates of \$150 or \$200 per hour; however, support documentation did not indicate the number of hours worked. Support documentation provided only included teacher sign-in sheets. In some cases, these sheets appeared to be altered as information was inconsistent from one sheet to the next. We requested supporting documentation for a payment of \$85,000 to this vendor for services provided in fiscal year 2016; however, the district was unable to locate these documents. We also noted that the district's fiscal years 2016 and 2017 contracts with the vendor for the teacher mentoring and coaching services were for \$150 or \$200 per hour, while the fiscal year 2018 proposal for the same services from the same vendor was

reduced to \$50 per hour. This brings into question the reasonableness of the previously contracted hourly rates.

During fiscal year 2016, the district paid another vendor \$79,000 to provide guidance counseling services at approximately \$80 per hour for 988 hours of services. Services were supposed to begin in September 2015, but the contract was not signed by the district School Business Administrator until February 18, 2016. This vendor was the only bidder to submit a proposal for these services. During fiscal year 2017, the district made five payments to the same vendor totaling \$109,000 for these services. The vendor was once again the only bidder and charged an hourly rate of \$90. We compared the hourly rates charged by the vendor to the hourly rates charged by other vendors for comparable services. The \$90 hourly rate appears to be excessive when compared to two other vendors who charged \$35 to \$36 per hour and provided similar guidance counseling services for district students at other non-public schools.

Related Parties

Our analysis of expenditures for non-public schools during fiscal years 2016 and 2017 disclosed that three vendors identified as potential related parties accounted for 51 percent of total non-public school expenditures.

The first vendor (Vendor A) is a nonprofit organization created in 2008 to centralize financial and academic management of certain non-public elementary schools in Camden. The district paid Vendor A \$13,340 in fiscal year 2016 and \$13,625 in fiscal year 2017 for professional development services at these elementary schools. Since Vendor A is responsible for the management of these elementary schools, it would not be considered independent as required by the grant and therefore ineligible to provide these services.

The second vendor (Vendor B) is a nonprofit organization providing academic enrichment and support programs for K-12 students and professional development. The district paid Vendor B \$85,000 in fiscal year 2016 and \$ 78,525 in fiscal year 2017 for services. The individuals holding the positions of President and Treasurer of Vendor B are also the Executive Director and Chief Financial Officer for Vendor A. We attempted to obtain wage reporting data for employees of Vendor B to identify who might have performed these services, and found no wage data reported for any employees. It is not clear if these services were provided by employees of the schools, volunteers, another vendor, or even provided at all. Additionally, the 2015 and 2016 Internal Revenue Service Form 990s showed that Vendor B did not have any employees during those years and paid no compensation.

The last vendor (Vendor C) is a nonprofit organization under an ecclesiastical district that provides various social services for needy individuals throughout the six southern New Jersey counties. Vendor C provides guidance counseling services at three of the non-public schools in Camden which are operated by Vendor A. The district paid Vendor C \$79,000 in fiscal year 2016 and \$109,000 in fiscal year 2017 for these services. Vendor C, through its association with the ecclesiastical district, is a related party to Vendor A. As disclosed in a note to Vendor A's

financial statements, the ecclesiastical district provides Vendor A with rent-free usage of facilities (valued at \$365,900 per year) as well as subsidies of \$300 per student.

Recommendation

We recommend the district properly administer grants in compliance with applicable grant regulations, maintain control and supervision over the delivery of services, and ensure contracted parties are independent of the non-public schools.



Payroll Leave Records

The inaccurate recording of leave usage and the unavailability of supporting timesheets have caused leave records to be unreliable.

An adequate system of internal controls requires maintenance of reliable records to prevent errors and irregularities from occurring and remaining undetected. We attempted to test employee leave balances for selected pay periods for the 2015–16 and 2016–17 school years but the district’s payroll unit could not locate and provide any of the timesheets for the 2015–16 school year. The district advised us to contact the schools directly to request the timesheets; however, we encountered difficulty receiving them from the schools directly. We requested timesheets for 25 district employees and were not provided complete timesheets for 20 of them. We therefore limited our test of leave time to one pay period in the 2016–2017 school year since the payroll unit indicated it would only be able to provide the timesheets for that school year.

The state Bureau of Records Management places all public records on Records Retention Schedules that list the minimum legal and fiscal time periods they must be retained by state and local governmental and educational agencies in accordance with N.J.S.A. 47:3-19. The established records retention schedules for school districts, requires time cards/sheets to be retained by the district for seven years, therefore the timesheets should have been available.

We requested timesheets for all of the district schools for the June 15, 2017 pay period, and the payroll unit was only able to provide the timesheets for 14 of the 22 district schools. According to district personnel, the clerk at each school is responsible for entering any leave time used into the payroll system and then emails the timesheets to the district payroll unit weekly. The payroll unit is then responsible for verifying that the employee leave time is properly recorded in the system and properly deducted from the employee’s leave balance while also making any necessary corrections. Since we were not provided all timesheets requested, we were unable to verify if the payroll unit ever received timesheets from each school. The payroll unit was unsure if it received all of the timesheets, which indicated it did not always review all the timesheets.

For the timesheets we did obtain from the 14 district schools, we tested employee leave time to determine that it was properly recorded in the system, and the time was properly deducted from the employee’s leave time balance. We tested 100 percent of reported leave time used during the

pay period for these schools. We noted a total of 1,207 instances where an employee had marked on the timesheet that leave time was used. Our test revealed 96 (8 percent) of these instances were not properly recorded in the system, and the payroll unit failed to make a correction; therefore, the leave time used was not deducted from the employees' leave time balances.

In addition, we noted 434 instances where employees were not properly signing both in and out on the timesheets. District practice requires employees to sign in and sign out each day to ensure they are present. We also noted 100 instances in which the entire day was blank on the timesheet, indicating the employee was out for the day. Per the payroll unit, the employee should be marked as absent if the day is blank on the timesheet. No leave time was deducted for any of these instances.

We attempted to verify the employees on the district's payroll to the 14 schools' timesheets provided. We tested a total of 998 employees of which 76 could not be traced back to a timesheet. We also noted 24 employees who we traced to a timesheet but who had never signed in or out for any days in the pay period. We could not obtain further documentation or explanation from the district for these employees.

Due to the limitations imposed on our testing, we were unable to determine how many instances exist among the eight schools for which we did not receive the timesheets requested or the effect these limitations had on issues disclosed.

Recommendation

We recommend the district ensure compliance with established timekeeping procedures. The district should verify employee leave time taken is properly recorded in the system and properly deducted from employee leave balance. The district should enforce its requirement that all employees are included on the timesheets and are properly signing in and out each day. The district should also maintain adequate supporting time reports and retain timesheets for the required amount of time.



Inventory and Warehouse Records

The district does not maintain accurate inventories of its information technology equipment and warehouse items.

Information Technology Equipment

Strong internal controls dictate that up-to-date records be maintained to track and monitor the assignment, use, and disposal of assets to ensure efficient and effective use of resources. We noted the district's records are not up-to-date, and it had not performed a physical inventory of information technology (IT) equipment since February 2016. This centralized IT inventory is not

always updated when new equipment is purchased, when obsolete equipment is disposed of, or when equipment is moved between locations.

We attempted to locate 250 items (computers, laptops, iPads, and monitors) in four district schools per the district's centralized inventory and were able to locate only 106 (42 percent) of them. Operations Managers at each of the buildings we visited informed us that the centralized inventory listing provided to us by the district's IT department was the most current listing available. During our inventory testing, we also observed the following issues.

- Piles of obsolete and broken equipment that the Operations Manager informed us had not been in use for at least a year.
- Eight new, unopened laptop computers in an office closet that were purchased one year earlier.
- Thirteen new tablets in a closet which were not in use and not listed on the centralized inventory.
- Thirty-seven unsecured laptops and eighteen iPads in several classrooms, including one classroom that was being used by contractors during the summer.
- One classroom closet was filled with unopened headphones, computer mouse devices, and microphones.

We performed an additional test to verify a recent purchase of computers for one location. We obtained the packing slip for this location's purchases which included 30 computers costing \$25,500. We were unable to trace these 30 computers to the centralized inventory. During our visit at the school, we were only able to physically verify 20 of the computers on the packing slip. Although we found another 10 computers at this location, they did not match the packing slip, therefore, we were unable to determine if they were included in the purchase.

The district's IT Manager stated the inventory was not up-to-date because the IT department was short-staffed and equipment was often transferred between schools without notifying the IT unit. Effective July 1, 2017, the district outsourced IT support to a vendor and the district's IT staff was reduced from fifteen to four employees. The IT Manager stated the vendor would conduct an inventory of district equipment. Despite numerous requests, we were not provided with an updated inventory listing.

Since the district does not maintain an accurate record of its IT inventory, it has limited knowledge of the location, condition, and existence of equipment, or if any IT items are lost or stolen. Furthermore, the district is unable to determine if unused or excess IT items at one location could be used to satisfy a request for IT items at another location, thereby leading to unnecessary purchases of new equipment.

Warehouse Items

The district maintains three warehouses. Two are located on district properties and another is leased. One warehouse located at the district's main business office building stores custodial items such as trash bags and cleaning supplies. We chose to visit the other two locations. One district location we visited stores supplies related to building maintenance activities such as nails, lumber, copper pipes, and toilets. It also holds construction items such as cement, front loader equipment, and snow blowers. Approximately one-half of the third floor houses a significant amount of outdated supply items that can no longer be used or sold. Some of these items have been stored since the 1960's and are obsolete. We requested the inventory listing from the district for this location, but it was incomplete and not useful. The other location we visited is a facility leased by the district which stores a variety of items that were once used in schools including chairs, desks, tables, file cabinets, exercise equipment, and food service equipment. These items were stored in piles and were gathered from schools that have been closed. Due to these school closings, the district has needed to use this warehouse to store all furniture including damaged, unsalvageable, and perfectly fine items. These items have not been inventoried. We were informed the facilities unit has experienced a reduction in personnel including the person in charge of maintaining the inventory. We were told the district desires to dispose of the obsolete and damaged items and sell the other school items, but it has not developed procedures to do so.

Recommendation

We recommend the district perform a full annual inventory of IT equipment and applicable warehouse items. A centralized inventory should be maintained and updated regularly when new items are received, old items are discarded, and when items move to a new location. We also recommend the district properly secure IT equipment when not in use. The district should only purchase equipment as needed, and any unused equipment should be made available for use where needed. The district should develop procedures to properly dispose of obsolete, damaged, and unsalvageable items in accordance with district policy. The district should also evaluate options available to sell marketable surplus school items.



Observation

Vacant District Property

The district owns seven vacant properties, with the average length of vacancy being seven years. The buildings on these properties are generally in poor condition and cannot be used without significant repairs. Our audit disclosed the district incurred costs totaling \$162,223 for utilities and maintenance at these properties from July 1, 2015 through February 28, 2018. During 2016, one of these properties, located outside the City of Camden became subject to local taxes because it is no longer utilized as a public school. These property taxes totaled \$37,234.

The district told us that it tries to sell the properties if there are any interested business parties. Two of the properties were appraised in 2017 at \$1.2 million by an independent professional. According to a fixed asset accounting ledger, the remaining five properties had a book value of approximately \$2.1 million in 2016 (\$1.9 million for the buildings and \$255,000 for the land); however, a proper real estate appraisal has not been performed for these five properties, therefore their approximate market value remains unknown.

The vacant properties serve no purpose to the district, as the buildings on these properties are in such disrepair that they cannot be safely utilized by the district as either temporary or emergency locations. As a result, the district is forced to lease facilities when such space is needed.

The district is currently building a new high school which is expected to open for the school year starting in fall of 2021. It currently leases two facilities to compensate for the loss of the high school building, with one facility housing the students and the other facility housing furniture and equipment. The annual costs of these facilities are \$200,000 and \$116,418, respectively. The rental rate for the student facility is to be fully reimbursed by the New Jersey Schools Development Authority.

In January 2018, pipes at one of the district's schools burst, leading to significant flood damages to the building and rendering it unusable for students and staff. Since the vacant properties could not be used, the district entered into a lease agreement for temporary space from January 1, 2018 through June 30, 2018. The district became responsible for lease payments totaling \$220,000 and estimated utility costs totaling \$40,000.

In the 2012–13 school year the district school enrollment was 12,608. As of the 2016–17 school year, district school enrollment declined by 3,720 students (30 percent). This is primarily due to an enrollment shift towards the charter and renaissance schools. If district school enrollment continues to decline, it is possible that more properties will become vacant.





Katrina T. McCombs
ACTING STATE SUPERINTENDENT

January 8, 2018

Mr. Stephen M. Eells
NJ Legislature
Office of Legislative Services
Office of the State Auditor
Trenton, NJ

Dear Mr. Eells,

The Camden City School District (CCSD) is in receipt of the Office of Legislative Services audit covering the period of July 1, 2015 through February 28, 2018. The District is grateful to the State for providing clear recommendations for improvement. Resolving persistent issues with District fiscal management is critical to CCSD's ability to provide students with a high quality education, and our ability to return to stable, sustainable local control.

After falling into State intervention in 2013, the Camden City School District underwent a period of significant systems change. Many of these changes were still in process during the timeframe of the OLS audit, including the introduction of renaissance schools and the reduction of Central Office staff by nearly a half.

During this time, the graduation rate rose by 20 points and student proficiency made steady, incremental progress year-on-year. We are now in a position to build upon the modest progress we are making in student achievement, while re-focusing efforts on building strong fiscal management systems that will ensure our resources deliver maximum impact for students and schools.

Business office functions

Seven of the nine OLS audit findings relate to the functions of the District's Business Office – including payments to non-public schools, tuition reimbursements, and payments to Early Childhood private providers. In December 2018, my School Business Administrator and I presented our full Corrective Action Plan to the State Board of Education, which outlines the District's steps to address persistent fiscal challenges in the following areas:

- Purchasing;
- Student activity funds;
- Reconciliations (payroll and general ledger);
- Internal controls;
- Accounts Payable;
- Grants and non-publics; and
- Late audit filings.

With the support of additional personnel and significant investment in staff training, our SBA and business office are on the right track to addressing the persistent fiscal issues uncovered in this audit, many of which have plagued CCSD for nearly a decade. The establishment of a clear, updated internal controls manual and standard operating procedures (SOPs) is the first step toward making sustainable changes, and will be supported by regular staff training, a new organizational chart, and key hires.



Camden Public Schools



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CCSD-TV

Last month CCSD hired an experienced Assistant School Business Administrator to support the payroll, reconciliations, grants, and purchasing functions. In addition, we are currently hiring for two newly created positions that will provide more experienced oversight of critical business office functions: Senior Director of Grants and Senior Manager of Procurement and Payables. With stronger internal controls and more senior accounting staff overseeing procurement and payables, we will be able to ensure stricter adherence to purchasing regulations and ensure we are receiving all payments from vendors and partners in a timely way.

Finally, CCSD is currently undergoing a review of its enterprise resource planning software with the goal of moving to a system that is compatible with Department of Education reporting requirements, and will allow for more accurate and timely audits and payroll reporting.

Urban Hope Act

The Urban Hope Act was implemented in Camden in 2013 to bring high quality neighborhood public schools to areas of the City in desperate need of investment in new facilities and improved student achievement. In response to the audit, CCSD will work with renaissance partners and Camden Enrollment to review its options to ensure students in renaissance catchment areas have access to attend their neighborhood renaissance schools.

Alternative Education

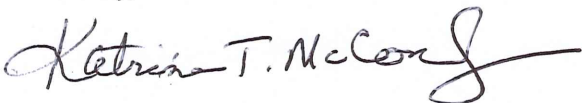
In an effort to save over \$1,000,000 annually, in 2018 CCSD brought its alternative education services in-house. With an operating budget of \$280,000, the District-led program serves transition students in grades 6-12 and accelerated high school students in two locations. The program supports our most vulnerable students through a case management approach, and actually increases staffing resources while decreasing total operating costs.

Inventory and warehouse records

The position of inventory control specialist has been vacant since 2014. To address the challenges resulting from this vacancy, in 2019 CCSD will update all fixed asset inventories and assign inventory management to a staff member in the Business Office.

As a District, we have come a long way since state intervention in 2013. However, to deliver the consistent, high quality education our students deserve, the Camden City School District must course correct years of inconsistent internal controls and SOPs. My leadership team and I are committed to working systematically to address each audit finding, and build a strong culture in our District that values the efficient and effective use of resources.

Sincerely,



Katrina T. McCombs
Acting State Superintendent



Camden Public Schools



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