
Camden City Public School District's Administration of Non-Salary Federal Education Funds

FINAL AUDIT REPORT



ED-OIG/A02K0014
March 2012

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.



U.S. Department of Education
Office of Inspector General
New York, New York

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
New York Audit Region

March 6, 2012

Mr. Christopher D. Cerf
Acting Commissioner of Education
New Jersey Department of Education
100 River View Plaza
P.O. Box 500
Trenton, NJ 08625

Dear Mr. Cerf,

Enclosed is our **final audit report**, Control Number ED-OIG/A02K0014, titled "Camden City Public School District's Administration of Non-Salary Federal Education Funds." This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

Michael Yudin
Acting Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Daniel Schultz
Regional Inspector General for Audit

Enclosure

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Abbreviations/Acronyms/Short Forms Used in This Report

34 C.F.R.	Title 34 of the Code of Federal Regulations
American Appraisal	American Appraisal Services
Board	Board of Education
CAFR	Comprehensive Annual Financial Report
Camden	Camden City Public School District
Department	U.S. Department of Education
ESEA	Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001
FY	Fiscal Year
IDEA	Individuals with Disabilities Education Act of 2004
IPA	Independent Public Accountant
LEA	Local Educational Agency
NJDOE	New Jersey Department of Education
N.J.S.A.	New Jersey Statutes Annotated
OIG	Office of Inspector General
OMB	Office of Management and Budget
PO	Purchase Order
Recovery Act	American Recovery and Reinvestment Act of 2009
SES	Supplemental Educational Services
Title I	Title I, Part A (Improving Basic Programs Operated by Local Education Agencies)
Title II	Title II, Part A (Teacher and Principal Training and Recruiting Fund)
Title IV	Title IV, Part A (Safe and Drug-Free Schools and Communities Act)

EXECUTIVE SUMMARY

The objective of our audit was to determine whether the Camden City Public School District's (Camden) non-salary expenditures funded through the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (ESEA), were allowable and spent in accordance with applicable laws and regulations for the audit period from July 1, 2006, through June 30, 2009. The non-salary expenditures we reviewed for this audit included a review of Camden's purchases and contracts below New Jersey's statutory bid threshold of \$29,000. This audit excluded expenditures related to contracts that exceeded New Jersey's statutory bid threshold and Supplemental Educational Services (SES) that were reported in previous audit reports.

We issued separate audit reports on Camden's contract related and SES expenditures titled "Camden City Public School District's Administration of Federal Education Funds," ED-OIG/A02J0002, dated June 6, 2011, and "Camden City Public School District's Administration of its Supplemental Educational Services Program," ED-OIG/A02K0011, dated May 4, 2011. The reports are available for review on the Office of Inspector General (OIG) Web site, under "Office of Elementary and Secondary Education" at <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a02j0002.pdf> and <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a02k0011.pdf>.

To accomplish the objective of this audit, we analyzed information in Camden's accounting system and selected a stratified random sample from purchase orders (POs) in the accounting system with a value in excess of \$500. Our sample consisted of 197 POs totaling \$4,715,846 of non-salary expenditures out of a universe of 5,039 POs totaling \$32,583,031. We concluded that the sampled non-salary expenditures were not always spent in accordance with applicable laws and regulations for our audit period.

Specifically, we found that Camden's accounting system did not accurately reflect its ESEA expenditures for FYs 2007 and 2008. In addition, Camden improperly charged \$372,808 in ESEA expenditures for 22 of the 197 POs we reviewed, and it lacked supporting documentation for \$1,362,161 in expenditures for 27 of the 197 POs. We also found that Camden did not have an adequate inventory system to ensure that equipment purchased with ESEA funds was properly managed. Further, Camden did not properly procure goods and services for purchases that exceeded the statutory bid threshold as required by State law. From the sample of 197 POs that we reviewed, we found that Camden was required to procure 8 POs in accordance with Federal and State procurement regulations because the purchases exceeded the statutory bid threshold of \$29,000. These eight POs were not reported in our audit report of Camden's contract related expenditures noted above because Camden used its PO process when it was required to procure these purchases contractually.

In performing the scope of work in this audit and the previous audits of Camden we recently completed, we found significant internal control deficiencies that affected Camden's ability to effectively and efficiently administer Federal education funds and programs. We found that Camden did not have: (1) adequate fiscal and management controls to ensure proper

administration of Federal education programs and funds, (2) an adequate inventory system for equipment purchased with Federal education funds, (3) an adequate contract administration system to ensure compliance with Federal and State procurement requirements, and (4) adequate controls to ensure that SES providers were paid using the New Jersey Department of Education's (NJDOE's) approved rates. Therefore, there is no assurance that Federal education funds were used for their intended purposes and safeguarded against fraud, waste, and abuse. Based on these cumulative and recurring internal control deficiencies, the U.S. Department of Education (Department) should take appropriate actions to protect Federal education funds awarded to Camden.

We recommend that the Assistant Secretary for Elementary and Secondary Education work with NJDOE to designate Camden as a high-risk grantee, appoint a third party servicer to administer Camden's Federal education funds, and rescind Camden's flexibilities to operate a schoolwide plan.

In addition, we recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to:

- return ESEA funds used for unallowable expenditures to the Department, and ensure that payments for non-salary expenditures are made in accordance with laws and regulations;
- develop and implement controls in its accounting system to ensure accurate identification of the source and use and proper reporting of Federal education funds expenditures;
- provide adequate supporting documentation for unsupported ESEA expenditures or return the unsupported funds;
- develop and implement an inventory tracking system to ensure that equipment purchased with Federal funds is properly maintained and safeguarded against loss, damage, and theft; and
- implement controls and provide training to ensure the procurement of goods and services that exceed the statutory bid threshold complies with laws and regulations.

We provided a draft of this report to NJDOE. We reviewed NJDOE's response, dated December 2, 2011, but we did not revise any findings based on documentation received. In its response, NJDOE neither agreed nor disagreed with Finding Nos. 1, 2, 3, 4, and 6, and disagreed with Finding No. 5 stating that State law indicates POs are recognized as contracts. NJDOE concurred with 12 of the 18 recommendations and stated Camden has taken actions to address the recommendations.

NJDOE disagreed with Recommendations 2.1, 3.1, and 4.1. NJDOE disagreed with the total amount to be returned for unallowable non-salary ESEA expenditures. In addition, NJDOE stated that the questioned computers and related equipment and accessories were used in accordance with ESEA Title II, Part A, Teacher and Principal Training and Recruiting Fund (Title II) requirements and that an inventory system was in place at Camden. NJDOE neither agreed nor disagreed with Recommendations 6.1, 6.2, and 6.3. NJDOE stated that it had met with officials from the Department's Office of Risk Management Service to discuss whether Camden should be designated a high-risk grantee.

We have summarized NJDOE's comments and our response after each finding. A copy of NJDOE's response is included as Enclosure B.

BACKGROUND

Camden was awarded \$68,705,739 in ESEA subgrants for the September 1, 2006, through August 31, 2009, school years.¹ Of the total ESEA subgrants awarded, Camden expended \$53,110,104. Camden operated 29 to 30 schools and had an average annual student enrollment of about 14,000 students. For school years 2006-2007 and 2008-2009, 29 schools operated as schoolwide schools and for school year 2007-2008, 28 schools operated as schoolwide schools. (See Table 1 below.) Schoolwide schools are those with State approved comprehensive plans that allow schools to blend their Federal, State, and local funds to upgrade the entire educational program of a school serving eligible children.

School Year	Total Schools	Schoolwide Schools	Enrollment
2006-2007	30	29	15,331
2007-2008	29	28	12,954
2008-2009	29	29	13,636

During our preliminary review conducted for the period from July 1, 2005, through June 30, 2006, we became aware of numerous deficiencies regarding Camden’s administration of Department funds.² There also was a significant increase in Federal funding through the American Recovery and Reinvestment Act of 2009 (Recovery Act), which could be at risk of misuse. For the period from July 1, 2009, through June 30, 2010, Camden received \$49,038,760 in Recovery Act funds, which included \$38,485,861 in State Fiscal Stabilization Fund grant awards, \$6,397,060 in Title I, Part A, Improving Basic Programs Operated by Local Education Agencies (Title I), Recovery Act funds, and \$4,155,839 in Individuals with Disabilities Education Act of 2004 (IDEA) Recovery Act awards.

As a result of our audit work, we issued audit reports titled “Camden City Public School District’s Administration of Federal Education Funds,” ED-OIG/A02J0002, dated June 6, 2011, and “Camden City Public School District’s Administration of its Supplemental Educational Services Program,” ED-OIG/A02K0011, dated May 4, 2011. We found that Camden did not have an adequate contract administration system, had unsupported expenditures, did not comply with Federal procurement requirements, and had internal control weaknesses in accounting for contract expenditures. We also determined that Camden’s SES expenditures, funded through ESEA, were not always spent in accordance with applicable laws and regulations. The reports are available for review on the OIG Web site, under “Office of Elementary and Secondary Education” at <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a02j0002.pdf> and <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a02k0011.pdf>.

¹ Each year NJDOE awarded ESEA subgrants for the September 1 through August 31 period. However, for reporting purposes, we reviewed expenditures for Camden’s fiscal year July 1 through June 30, as reported in Camden’s Comprehensive Annual Financial Report (CAFR).

² The review was performed from November 14, 2007, through March 20, 2008. We resumed audit work on November 10, 2008.

This draft report presents the findings of our audit work related to the audit of non-salary expenditures funded through ESEA for the period from July 1, 2006, through June 30, 2009. For this audit of non-salary expenditures we reviewed a sample of Camden’s POs, which included those related to contracts under the statutory bid threshold. Contracts awarded above the statutory bid threshold of \$29,000 funded by ESEA and SES expenditures were reviewed during our audits of Camden’s contract and SES expenditures noted above.

During our audit period, Camden had two Independent Public Accountants (IPAs) that prepared its Comprehensive Annual Financial Report (CAFR). One IPA prepared Camden’s CAFRs for fiscal years (FYs) 2007 and 2008. Camden contracted with a new IPA for FY 2009. Both IPAs identified several material internal control weaknesses over Camden’s financial reporting and operations that could affect Camden’s ability to administer Federal education programs in accordance with laws and regulations. Table 2 below illustrates the IPAs’ opinions expressed on Camden’s financial statements and compliance over major Federal programs and the related number of reportable findings.

FY	Opinions on Financial Statements	Opinion on Compliance over Major Programs	Number of Reportable Findings	Recurring Prior Year Findings
2005	Adverse – Governmental and Business-type Activities; General, Special Revenue, Proprietary and Fiduciary Funds Unqualified – Capital Projects and Debt Service Funds	Adverse	36	20
2006	Adverse – Governmental Activities; General, Special Revenue Funds Unqualified – Capital Projects and Debt Service Funds Disclaimer – Business-type Activities, Proprietary and Fiduciary Funds	Adverse	43	31
2007	Adverse – Governmental Activities Unqualified – General, Special Revenue, Capital Projects, Debt Service and Fiduciary Funds Disclaimer – Business-type Activities and Proprietary Fund	Qualified	35	28
2008	Unqualified – General, Special Revenue, Capital Projects, Debt Service and Fiduciary Funds; Governmental Activities Disclaimer – Business-type Activities and Proprietary Fund	Unqualified	29	19
2009	Unqualified – Governmental and Fiduciary Funds Disclaimer – Proprietary Fund	Qualified	38	14

Further, on February 8, 2011, NJDOE’s Office of Fiscal Accountability and Compliance issued a Recovery Act monitoring report for the period from July 1, 2009, through November 15, 2010, for its review of Camden’s funds received and disbursed from Recovery Act programs. NJDOE’s report identified findings on Camden’s Recovery Act programs related to unallowable and unsupported expenditures, supplanting of Federal funds, and tracking of equipment in an inventory system. The report is available for review on NJDOE’s Recovery Act Web site at <http://www.state.nj.us/education/arra/resources/monitor/ARRA-018-09.pdf>.

AUDIT RESULTS

We determined that some of Camden's non-salary expenditures funded through the ESEA were unallowable and were not spent in accordance with applicable laws and regulations for the audit period from July 1, 2006, through June 30, 2009. Camden had charged \$372,808 in unallowable non-salary expenditures to ESEA funds and had \$1,362,161 in unsupported non-salary expenditures charged to ESEA funds. We also found that Camden's accounting system for FYs 2007 and 2008 did not accurately reflect its ESEA expenditures. Further, Camden did not have an adequate equipment inventory system to ensure that proper controls were maintained over equipment purchased with ESEA funds. Camden also did not always properly procure goods and services for purchases that exceeded the statutory bid threshold as required by State law. For eight POs we sampled, Camden had used its PO process when these procurements of goods and services should have been procured contractually. Therefore, these eight POs were not reviewed during our audit of Camden's contract related expenditures. In addition, in performing the scope of work in this audit and the previous audits of Camden we recently completed, we found that Camden lacked adequate internal controls that affected its ability to effectively and efficiently administer Federal education funds and programs.

FINDING NO. 1 – Camden's Accounting System for FYs 2007 and 2008 Did Not Accurately Reflect Its ESEA Expenditures

Camden's accounting system did not accurately and completely identify the source and use of all expenditures that were funded with ESEA funds for FYs 2007 and 2008. We compared Camden's ESEA expenditure reports for the audit period from July 1, 2006, through June 30, 2009, to the Federal expenditures reported in its FYs 2007, 2008, and 2009 audited financial statements.³ For FYs 2007 and 2008, we found differences in ESEA expenditures between Camden's accounting system and its audited financial statements. The differences were attributed to the proposed adjusting journal entries by the IPA to reclassify expenditures to ensure accurate accounting of Camden's Federal and non-Federal expenditures. Camden accepted the IPA's proposed adjusting journal entries, which are reflected in Camden's audited financial statements. However, Camden never recorded the adjustments in its accounting system.

We were able to determine the total value of Camden's Federal and blended fund accounts related to the expenditures that comprised the differences between its accounting system and audited financial statements.⁴ However, the specific individual expenditure transactions that Camden agreed to reclassify were not retained by Camden or its IPA. For FYs 2007 and 2008, there was a difference of \$784,495 and \$339,508, respectively, for Federal fund accounts and a \$104,073 difference for the FY 2008 blended fund accounts between Camden's accounting system and its audited financial statements. For example, for FY 2007, Camden's Title I School

³ Camden's audited financial statements are prepared by its IPA and reported in the CAFR.

⁴ The blended funds represent the comingling of schoolwide Federal, State, local, and any other municipal funds. Federal funds represent direct ESEA subgrant awards to Camden received from NJDOE.

Improvement Grant carryover funds and Title II carryover funds expenditures recorded in its accounting system were \$520,246 and \$160,205, respectively. These two expenditures were more than the amounts reported in its audited financial statements. For FY 2008, Camden's accounting system recorded Title I expenditures that were \$393,582 more than the amount reported in its audited financial statements.

Title 34 of the Code of Federal Regulations (34 C.F.R.) § 80.20 (b)(2) states, “[s]ubgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.”⁵

Pursuant to 34 C.F.R. § 76.702, a State and its subgrantees must use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds.

Because Camden did not make the adjusting journal entries in its accounting system to reflect the reclassification of expenditures, Camden's accounting system did not accurately reflect its ESEA expenditures for FYs 2007 and 2008.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to—

- 1.1 Develop and implement internal controls including, but not limited to, updating its accounting system with adjusting journal entries when applicable, to ensure that its accounting system accurately identifies the source and use of Federal education funds.

NJDOE Comments

NJDOE neither agreed nor disagreed with Finding No. 1 and agreed to take corrective action in accordance with Recommendation 1.1. NJDOE stated that Camden's FY 2012 budget included funds to purchase new accounting, payroll, and human resource software to accurately identify the source and use of Federal education funds.

OIG Response

We reviewed NJDOE's response to Recommendation 1.1. In its response, NJDOE did not specify how Camden's new accounting, payroll, and human resource software would be used to accurately identify the source and use of Federal education funds. However, if the planned accounting software includes the ability to do so, and is implemented correctly, we believe it may address our concerns.

FINDING NO. 2 – Camden Charged \$372,808 in Unallowed Non-Salary Expenditures to ESEA Funds

Camden charged \$372,808 in unallowable non-salary expenditures to ESEA funds for 22 of the 197 POs we reviewed. For two POs, Camden improperly charged purchases of computers and servers to Title II funds totaling \$159,408. For another two POs, Camden made duplicate expenditures totaling \$94,604. For 17 POs, Camden had questionable expenditures totaling

⁵ We applied the applicable regulatory citation for each fiscal year of our audit period.

\$80,374. For one PO, Camden exceeded by \$38,422 the allowable Title IV, Part A, Safe and Drug-Free Schools and Communities Act (Title IV), limit for the purchase of security equipment.

Camden Charged \$159,408 in Unallowed Non-Salary Expenditures to Title II Funds

From July 1, 2008, through June 30, 2009, Camden improperly charged \$159,408 to FY 2007 Title II carryover funds for two POs we sampled for purchases of computers and servers. The \$159,408 was charged to Camden's Federal fund accounts expended at the district level and not to its blended fund accounts. ESEA Title II Subpart 2 § 2123 provides an extensive list of the allowable activities by local educational agencies (LEAs) related to Title II purchases. Title II funds are used for teacher professional development and retention of highly qualified teachers and principals. To be an allowable expenditure, the computers and related equipment and accessories must be used to support allowable activities under ESEA Title II Subpart 2 § 2123. Specifically, for the 2 POs, Camden purchased 49 computers and 16 servers. However, according to Camden's documentation, the computers and the servers were used to support Reading and Mathematics educational programs for Camden students and not for principal and teacher professional development. Because the computers and the servers were not used for allowable Title II activities, we considered the \$159,408 expended for the 2 POs to be unallowed.

Camden Charged \$94,604 of Unallowed Duplicate Non-Salary Expenditures to ESEA Funds

Camden charged two duplicate expenditures that totaled \$94,604 to ESEA funds. Camden made a duplicate payment in the amount of \$56,000 in FY 2007 and overstated its ESEA expenditures in its accounting system by \$38,604 in FY 2009.

Camden made a \$56,000 duplicate payment to a vendor during the period from July 1, 2006, through June 30, 2007. On March 3, 2006, Camden opened a PO for the vendor to provide professional development workshops to Camden staff. The vendor submitted an invoice, but Camden did not submit payment for the services. The vendor then submitted a second copy of the invoice to request payment. Instead of paying the invoice and charging it against the first PO, Camden opened another PO for the same services. Camden inappropriately paid the vendor for both POs, which resulted in the vendor being paid twice for the same workshops. For each PO, Camden paid \$56,000 and allocated these expenditures to its ESEA accounting code. In addition, Camden did not recover the \$56,000 overpayment from the vendor.

Camden overstated its expenditures by \$38,604 during the period from July 1, 2008, through June 30, 2009. Camden opened two POs with another vendor to provide professional development to Camden staff. The first PO was for tuition for the fall 2008, spring 2009, and summer 2009 semesters of graduate study mathematics courses of which Camden paid \$19,302 for the fall 2008 semester class. Camden then opened a second PO for the spring and summer 2009 courses. For the second PO, Camden issued a check for \$38,604 that included a payment of \$19,302 for the fall 2008 semester course, which had already been paid, and \$19,302 for the spring 2009 semester course. When Camden realized that it had submitted a duplicate payment for the fall 2008 semester, it placed a stop payment order on the check for \$38,604 and issued a manual check in the amount of \$19,302 to pay for the spring 2009 semester course. However, Camden did not take steps to reverse the duplicate charge of \$38,604 from its accounting system.

According to 34 C.F.R. § 76.702, “[a] State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.”

Office of Management and Budget (OMB) Circular A-87 § (C)(1)(j) states that to be allowable under Federal awards, costs must be adequately documented.

According to the OMB Circular A-133 § ___. 300, “[t]he auditee shall . . . [m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Camden overpaid \$56,000 to a vendor for the same services because it lacked sufficient controls to prevent duplicate payments. In addition, Camden’s accounting system did not have controls to ensure that payments were not duplicated. Camden overstated its ESEA expenditures by \$38,604 because it lacked fiscal controls to ensure that its accounting system reflected the correct expenditures for ESEA funds. Because of this lack of controls, Camden’s duplicate expenditures totaling \$94,604 reported in its accounting system were unallowed.

Camden Charged \$80,374 in Questionable Non-Salary Expenditures to ESEA Funds

From our sample of 197 POs, we found that Camden had \$80,374 in questionable ESEA expenditures for 17 POs.⁶ We found that 17 POs did not have the required Board of Education (Board) secretary’s verification signatures on the secretary’s copy of the PO and that Camden’s accounts payable specialist improperly processed payment for these POs without the required approval.⁷ The secretary’s verification signature would have indicated that the PO had been examined, audited, and certified by Camden’s business administrator or designee so that payment could be made for services rendered or goods purchased. The 17 POs were for the purchase of catering services for parental involvement meetings, computers, conference fees, graphing calculators, instructional services for the student summer enrichment program, leadership presentations fees for students and their parents, a microwave, a refrigerator, and a television set for a school parent center, school and office supplies, and a student field trip and transportation. As a result, Camden expended \$80,374 in ESEA funds for POs that were not properly examined, audited, and certified for payment.

OMB Circular A-87 § (C)(1)(j) states that to be allowable under Federal awards, costs must be adequately documented.

Per New Jersey Statutes Annotated (N.J.S.A.) 18A:19-4.1,

A board of education may, by resolution, designate a person in addition to the secretary to audit any account and demand to be paid, and provide for approval of such account or demand by such person or the secretary prior to presentation to the board.

Per Camden’s Board Governance Manual section 3300, “All expenditures are to be audited by the School Business Administrator/Board Secretary in accordance with state statutes.”

⁶ Of the \$80,374, \$2,168 is included in the \$938,540 of unsupported expenditures noted in Finding No. 3.

⁷ Camden’s business administrator is also the Board secretary. The business administrator, who started in January 2009, stated that he delegated the approval authority and responsibility to the accounts payable manager.

Camden's accounts payable specialist circumvented Camden's policy and paid the POs without ensuring that the POs were properly audited by the business administrator. Because the secretary's verification signature was missing from the 17 POs, the accounts payable specialist should not have processed the payments for these POs. As a result, the expenditures of \$80,374 of ESEA funds were questionable.

Camden Exceeded Its Allowable ESEA Title IV Expenditure Limit for the Purchase of Security Equipment by \$38,422

Camden charged \$38,422 for security equipment in excess of the allowable limit for ESEA Title IV. The total Title IV funds that could be used for the purchase of security equipment was limited to 20 percent (50 percent of the 40 percent of total funds available to an LEA) of an LEA's Title IV award. Camden was awarded \$452,890 in ESEA Title IV funds for the 2008-2009 school year. Twenty percent of the total award of \$452,890 was \$90,578; therefore, \$90,578 represents the maximum allowable amount that could be used for security equipment. During the period from July 1, 2008, through June 30, 2009, Camden expended \$129,000 in Title IV funds for the installation of a security system in one of its high schools. Because the amount that Camden expended for the security equipment exceeded the maximum allowable amount, the difference of \$38,422 was not allowed.

ESEA Title IV Subpart 1 § 4115(b)(2)(E) states that drug and violence prevention activities may include acquiring and installing metal detectors, electronic locks, surveillance cameras, or other related equipment and technologies.

ESEA Title IV Subpart 1 § 4115(c)(1) provides the limitations on the amount spent on drug and violence prevention activities under ESEA § 4115(b)(2)(E):

[N]ot more than 40 percent of the funds available to a[n] [LEA] under this subpart may be used to carry out the activities described in clauses (ii) through (vi) of subsection (b)(2)(E), of which not more than 50 percent of such amount may be used to carry out the activities described in clauses (ii) through (v) of such subsection.

Camden's supervisor of the Office of Grants, Federal and State Funds, and the business administrator failed to verify the Title IV 20 percent limitation for purchases of security equipment before approving the PO. As a result, the expenditure of \$38,422 was not allowed because Camden paid the total expenditure of \$129,000 and charged ESEA Title IV funds, which exceeded the 20 percent limit of its total Title IV award for purchases of security equipment.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to—

- 2.1 Return \$316,183 in expenditures that were not allowed, with applicable interest, to the Department.⁸

⁸ Pursuant to 34 C.F.R. § 81.31(c), the limitation period for the return of funds is five years. Therefore, we adjusted Recommendation 2.1 to exclude \$56,625 in unallowable non-salary expenditures charged to ESEA funds for the period from July 1, 2006, through June 30, 2007, that may have been affected by the limitation period.

- 2.2 Review its accounting records to determine whether there are other duplicate expenditures for the period from July 1, 2007, through June 30, 2009, and return any duplicate expenditures, with applicable interest, to the Department.
- 2.3 Obtain refunds from vendors for the duplicate expenditures for the period from July 1, 2007, through June 30, 2009, and return any duplicate expenditures, with applicable interest, to the Department.
- 2.4 Develop and implement policies and procedures that require the business administrator to monitor the purchasing process to ensure that POs are properly audited and approved prior to payment in accordance with State statutes.
- 2.5 Provide training to accounts payable officials to ensure that payments are not made before POs are properly audited and approved in accordance with State statutes.
- 2.6 Follow its policies and procedures to ensure proper approval of POs before they are submitted to the accounts payable department and payments are made for purchased goods and services.
- 2.7 Implement proper accounting controls to ensure that ESEA funds are effectively disbursed and accounted for in its accounting system.

NJDOE Comments

NJDOE neither agreed nor disagreed with Finding No. 2, disagreed with Recommendation 2.1, and agreed to take corrective actions to address Recommendations 2.2, 2.3, 2.4, 2.5, 2.6, and 2.7. For Recommendations 2.2 and 2.3, NJDOE stated that if duplicate expenditures are recovered, Camden would amend its carryover reports to account for these funds instead of returning the funds to the Department.

In response to Recommendation 2.1, NJDOE stated that only \$197,830 of the \$372,808 unallowed expenditures recommended by OIG should be returned to the Department. NJDOE stated the duplicate payment of \$56,000 was recovered and \$38,604 was not paid to the vendor. NJDOE also stated that these expenditures should not be returned because it could be charged to Camden's carryover funds accounts. Further, NJDOE stated that \$80,374 should not be returned because it was not questionable for a PO to have a missing signature by the Board secretary as long as there was a complete voucher package and verification of goods and services received.

OIG Response

We considered NJDOE's response to Recommendation 2.1. We disagree with NJDOE's response regarding the amount to be returned. NJDOE did not provide documentation that Camden recovered the \$56,000 duplicate payment. In addition, because Camden's accounting software lacked the ability to update expense and revenue accounts once the year was closed, the \$38,604 was incorrectly accounted for and reported to NJDOE as an ESEA expenditure. Further, it is Camden's policy that the Board secretary certify and approve payment for services rendered or goods purchased before the accounts payable specialist processes the payments. Because the accounts payable specialist processed the payments without the required Board secretary approval, the expenditures of \$80,374 remain questionable. However, we adjusted the

amount of funds to be returned in Recommendation 2.1 to consider funds that may have been affected by the limitation period for the return of funds.

In addition, under the Tydings Amendment, Section 421(b) of the General Education Provisions Act (Title 20 of the U.S. Code § 1225(b)), Camden must obligate ESEA funds during the 27 months extending from September 1 of the State fiscal year for which the funds were appropriated through November 30 of the second succeeding fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. The ESEA funds cited as unallowable non-salary expenditures from our audit period have lapsed after the 27 months for which the funds were appropriated. Therefore, all unallowable expenditures noted, including those that have been or will be recovered, cannot be applied to carryover funds and should be returned to the Department with applicable interest.

In response to NJDOE's comments regarding Recommendations 2.2, 2.3, 2.4, 2.5, 2.6, and 2.7, if implemented correctly, we believe these corrective actions, with the exception of charging the recovered expenditures to the carryover funds accounts, may address our concerns. Because of the limitation period for the return of funds, we adjusted Recommendations 2.2 and 2.3 accordingly.

FINDING NO. 3 – Camden Lacked Adequate Documentation to Support Approximately \$1.4 Million of ESEA Expenditures

For the period from July 1, 2006, through June 30, 2009, we found that Camden did not have sufficient documentation to support \$1,362,161 in non-salary expenditures charged to ESEA funds for 27 of 197 POs we reviewed. For 24 of the 27 POs, Camden's records lacked documentation to support \$938,540 in ESEA expenditures. For the remaining three POs, Camden could not provide evidence to support the use of computers and related equipment and accessories totaling \$423,621 in ESEA expenditures.

Camden Lacked Documentation to Support \$938,540 of ESEA Expenditures

Camden's records lacked supporting documentation, such as the entire PO files, requisitions, receiving reports for services provided and materials delivered, vendor vouchers, and invoices for 24 POs. For 7 of 24 POs, there was no documentation in Camden's files and for the remaining 17 POs, Camden provided some documentation, but it was not sufficient to support the expenditures.

Camden could not provide any documentation, including the PO file itself, for 7 of 24 POs. Camden's PO files should have included copies of the requisition, the secretary's copy, receiving report, voucher, and invoice. The seven POs were for the purchase of computer equipment, copy paper, textbooks, workbooks, and supplies. Therefore, \$19,379 expended for these seven POs was unsupported.

For the remaining 17 of 24 POs, Camden lacked complete supporting documentation such as Camden's accounting system printout of PO details and invoices for goods that were backordered, requisitions, vendor vouchers, invoices, and receiving reports for services provided and materials delivered. The 17 POs were for the purchase of books, catering service for parental involvement meeting, conference fees, copying services, teacher professional

development courses, school and office supplies, and student field trip transportation. Therefore, \$919,161 expended for these 17 POs was unsupported.

Camden officials stated that its files were reviewed multiple times by various Federal and State agencies, and it is possible that the documents were not returned to Camden or were misfiled. If this was the case, the lack of documentation occurred because Camden did not have procedures in place to ensure that its documentation was properly returned and re-filed after review by others. During our audit, Camden's assistant business administrator orally informed us that Camden had recently implemented new procedures that required documents reviewed by others to be signed out and re-filed by Camden's business office staff only. Although we observed Camden's use of the sign-out procedure, we did not test the new procedures and could not verify whether they are adequate. The new procedures were not available in writing.

Camden Lacked Support for \$423,621 in ESEA Expenditures

For 3 POs, we found that Camden purchased 230 computers and related equipment and accessories including 219 mobile printers, 219 black ink cartridges, 219 color ink cartridges, and 219 rolling carts. The expenditures for the three POs were charged to Camden's Title II funds, which are used for teacher professional development and retention of highly qualified teachers and principals. According to Camden's supervisor of the Office of Grants, Federal and State Funds, 219 computers and related equipment and accessories were used for principal and teacher professional development. However, Camden could not provide evidence regarding the use or the location of the computers and related equipment and accessories. According to Camden's documentation, the remaining 11 computers, which included standard Microsoft Office software, were delivered to one of Camden's nonpublic schools. Camden also could not provide support that these computers were used for Title II activities. Therefore, the \$423,621 expended for the computers and related equipment and accessories was unsupported.

Pursuant to 34 C.F.R. § 76.730,

A State and a subgrantee shall keep records that fully show: (a) [t]he amount of funds under the grant or subgrant; (b) [h]ow the state or subgrantee uses the funds; (c) [t]he total cost of the project; (d) [t]he share of that cost provided from other sources; and (e) [o]ther records to facilitate an effective audit.

According to 34 C.F.R. § 76.731, "a state and a subgrantee shall keep records to show its compliance with program requirements."

OMB Circular A-87 § (C)(1)(j) states that to be allowable under Federal awards, costs must be adequately documented.

Because Camden officials did not follow procedures for maintaining documentation and did not have controls to ensure that documentation reviewed by others was returned and properly filed, \$938,540 in ESEA expenditures was unsupported. Because Camden officials could not provide evidence regarding the use of computers and related equipment and accessories, there was no assurance that the \$423,621 was expended for Title II activities. Also, by not retaining documents to support expenditures, Camden could not demonstrate its compliance with Federal record-keeping and program requirements.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to—

- 3.1 Provide support for \$1,271,189 in expenditures or return the unsupported amount of ESEA funds, less \$2,168 returned based on Recommendation 2.1, with applicable interest, to the Department.⁹
- 3.2 Implement procedures to ensure that adequate documentation is maintained to support expenditures for and uses of purchased goods and services.

NJDOE Comments

NJDOE neither agreed nor disagreed with Finding No. 3 and agreed to take corrective actions in response to our recommendations. In its response to Recommendation 3.1, NJDOE stated that the computers and related equipment and accessories were provided to Camden's school staff for professional development as planned in Camden's Technology and Professional Development Plan, and were used in accordance with Title II requirements. NJDOE also stated that Camden's technology department maintained a list of all computers purchased and will send NJDOE a location for each computer questioned in Finding No. 3. In addition, Camden plans to attempt to obtain missing documentation to support \$938,540 in ESEA expenditures.

In its response to Recommendation 3.2, NJDOE provided Camden's procedures used to process payments for goods and services (Attachment 1 of NJDOE's response). The procedures provide steps to include specific documentation when submitting claims for payment, procedures for partial payments, and approvals prior to check issuance. Also, NJDOE stated that the planned new accounting software may include scanning capabilities to maintain an electronic filing system to prevent documents from being misplaced.

OIG Response

We considered NJDOE's response to Recommendation 3.1. NJDOE did not provide additional documentation to support the use and location of computers and related equipment and accessories questioned in Finding No. 3. During our audit, Camden's technology department provided a listing of the 230 computers purchased. However, the list did not include the person assigned to the computers or the actual location of the computers. It noted only the locations where the equipment was delivered, which in this case were Camden's warehouse and a nonpublic school. We adjusted the amount of funds to be returned in Recommendation 3.1 to consider funds that may have been affected by the limitation period for the return of funds.

In response to Recommendation 3.2, we reviewed Camden's payment procedures attached to NJDOE's response. The payment procedures were developed after our fieldwork was completed. We noted that the payment procedures included steps to maintain adequate documentation to support a claim for payment and that Camden planned to purchase new software that could scan and maintain an electronic documentation filing system. However, in

⁹ Pursuant to 34 C.F.R. § 81.31(c), the limitation period for the return of funds is five years. Therefore, we adjusted Recommendation 3.1 to exclude \$90,972 in unsupported non-salary expenditures charged to ESEA funds for the period from July 1, 2006, through June 30, 2007, that may have been affected by the limitation period.

NJDOE's response outlining the payment procedures it did not specify procedures for maintaining documentation to support the uses of computers and related equipment and accessories. Therefore, these corrective actions would not be sufficient to fully address Recommendation 3.2.

FINDING NO. 4 – Camden Did Not Have an Adequate Inventory System

Camden did not have an adequate inventory system to ensure that equipment purchased with ESEA funds was properly managed in accordance with Federal requirements. We found that 8 of the 197 POs we sampled were for the purchase of smart interactive whiteboards with projectors, computer servers, security systems and cameras, and a basketball scoreboard. Each of these items exceeded the \$2,000 amount for designation as accountable equipment. When we requested inventory information, such as location and serial numbers, for the equipment purchased from the eight POs, Camden was unable to provide the information. During our audit period, Camden had a property officer who was responsible for maintaining the inventory system. When this position was eliminated, on July 1, 2010, Camden delegated the property officer's responsibilities to the purchasing agent. However, the purchasing agent was not given access to the inventory system. Consequently, we could not obtain information from Camden's inventory system for these eight POs including the existence and location of the equipment.

Camden's inventory system did not accurately reflect and track accountable equipment purchased by Camden. On February 24, 2009, Camden's Board awarded a contract to American Appraisal Services (American Appraisal) to review Camden's inventory system as of June 30, 2009, and to conduct an annual update of inventory for FY 2011. When American Appraisal conducted a physical inventory of equipment at each of Camden's locations, it found many errors and omissions of equipment in Camden's inventory system. American Appraisal also found that equipment was missing from the locations that were listed in Camden's inventory system. Camden's purchasing agent stated that Camden's inventory system had not been reconciled for 11 years before contracting with American Appraisal. In addition, because of the errors and omission of equipment found by American Appraisal, we concluded that Camden's property officer had not accurately managed and properly tracked equipment in Camden's inventory system as required.

Camden's inventory system was not properly maintained during our audit period. During its review, American Appraisal used the information in Camden's inventory system but created its own inventory system to maintain and track Camden's equipment. However, Camden's contract with American Appraisal did not include a clause to update Camden's inventory system with the information in American Appraisal's inventory system. In addition, Camden received inventory reports from American Appraisal but did not reconcile the inventory information to its own inventory system. Because Camden is not updating its inventory system with American Appraisal's inventory information, Camden will not be capable of maintaining an accurate record of its equipment and tracking its equipment after its contract with American Appraisal is terminated.

“Equipment” as defined by 34 C.F.R. § 80.3 is “tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.” In

addition, the regulation states that a grantee may use its own definition of equipment provided that it includes at least all equipment as defined above.

Further, 34 C.F.R. § 80.32(d) states

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

According to the Uniform Minimum Chart of Accounts for New Jersey Public Schools, the minimum dollar value for determining whether an item used by a school district in New Jersey is equipment was increased to \$2,000 effective July 1, 2001.

Because Camden could not provide the equipment inventory information for the eight POs we sampled, we were unable to verify whether the equipment was used for its intended education program purposes as required by ESEA. In addition, because Camden's property officer had not maintained proper controls over Camden's inventory system, there is no assurance that equipment purchased with Federal education funds was properly recorded and classified in Camden's inventory system in accordance with applicable laws and regulations. Also, because Camden had not updated its inventory system to reflect the annual inventory reports submitted by American Appraisal, we concluded that Camden's equipment was not properly managed in its system and safeguarded against loss, damage, and theft.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to develop and implement—

- 4.1 An inventory tracking system that includes sufficient details to ensure that equipment purchased with Federal funds is properly managed as required by laws and regulations.
- 4.2 Controls to ensure that the inventory of equipment valued at more than \$2,000 purchased with Federal funds is properly reconciled with the inventory records as required by laws and regulations.
- 4.3 Controls to ensure that the equipment valued at more than \$2,000 purchased with Federal funds is properly used for its intended Federal program purposes as required by laws and regulations.

NJDOE Comments

NJDOE neither agreed nor disagreed with Finding No. 4 and agreed to take corrective actions in accordance with Recommendations 4.2 and 4.3. In its response to Recommendation 4.1, NJDOE stated that the purchasing agent had access to the inventory system and that the inventory system established by American Appraisal was the official inventory system for Camden. In its response to Recommendations 4.2 and 4.3, NJDOE stated that Camden established a position of a fixed assets specialist to ensure that equipment listed in American Appraisal inventory is actually in place. In addition, Camden's supervisor of funded programs would approve for purchase only equipment that is supported in writing with a reasonable and allowable justification.

OIG Response

We reviewed NJDOE's response to the recommendations. Contrary to NJDOE's response, Camden's purchasing agent stated that he did not have access to the inventory system, and Camden's inventory system was not updated to reflect the American Appraisal inventory. In its response, NJDOE did not provide documentation stating whether the services of American Appraisal would continue beyond June 30, 2011, when the contract expired, or whether Camden planned to update its own inventory tracking system with the American Appraisal inventory. Therefore, the corrective actions would not be sufficient to fully address Recommendation 4.1.

We believe that if the duties and responsibilities of the fixed assets specialist and supervisor of funded programs as explained in NJDOE's response were properly implemented, it may address our concerns related to Recommendations 4.2 and 4.3.

FINDING NO. 5 – Camden Did Not Properly Procure Goods and Services for Purchases that Exceeded the Statutory Bid Threshold

Camden did not properly procure goods and services for purchases that exceeded the statutory bid threshold of \$29,000 as required by State law. We found that for 8 of the 197 POs we sampled, Camden used its PO process when these procurements of goods and services should have been procured contractually. Any procurement of goods and services exceeding \$29,000 must be approved by Camden's Board through resolution and have a signed contract with the vendor. The eight purchases exceeded the statutory bid threshold of \$29,000 and lacked an approved Board resolution and a signed contract with the vendor as required by State law.

The eight POs we sampled were not reviewed during our audit titled "Camden City Public School District's Administration of Federal Education Funds," ED-OIG/A02J0002, conducted for the period from July 1, 2005, through June 30, 2009. The objective of that audit was to review all of Camden's contracts awarded above the statutory bid threshold of \$29,000 and funded by ESEA. However, Camden could not provide a universe of contracts funded by ESEA. Therefore, we used alternative procedures, including a review of Board resolutions, in an attempt to identify the contracts awarded above the statutory bid threshold and funded by ESEA. We noted in the audit report that there was a risk that the alternative procedures we used would not result in the identification of all such contracts. We noted during this audit that because the services and goods for the eight POs were not procured properly by way of contract, including lack of approved Board resolutions, we were not able to identify them in our previous audit report on Camden's contract related expenditures.

We found that the eight POs totaling \$372,805 did not have the required supporting documentation for purchases that exceeded the bid threshold, including approved resolutions by Camden's Board as well as a signed contract agreement.

Specifically, for three separate POs during the period from July 1, 2006, through June 30, 2007:

- A vendor provided 18 professional development and instructional aide workshops for Camden teachers for a total cost of \$63,000. However, Camden could not provide a Board resolution or contract for the expenditure.
- A vendor installed 16 interactive whiteboards in 8 schools in Camden for a total cost of \$62,511. The documentation supported only that Camden received a price quotation from the vendor before opening a PO. However, there was no documentation to support that competitive bidding was performed, and an approved Board resolution and a contract were missing for the expenditure.
- A vendor provided uniforms for school law enforcement officers. The total expenditure was \$52,890, of which \$1,960 was allocable to ESEA funds. We found that this vendor was awarded a contract through competitive bidding for the previous and subsequent years. However, there was no documentation to support that competitive bidding was performed for the period from July 1, 2006, through June 30, 2007, and an approved Board resolution and a contract were missing for the expenditure.

For two separate POs during the period from July 1, 2007, through June 30, 2008:

- A vendor supplied yearbooks for three of Camden's schools for a total cost of \$72,422, of which \$2,715 was allocable to ESEA. Camden could not provide an approved Board resolution or a contract for the expenditure.
- A vendor provided online subscription services for students to research grade appropriate material for various classroom subjects for a total cost of \$30,005. For the period from July 1, 2006, through June 30, 2007, Camden's Board approved the resolutions to contract with the vendor. However, for the period from July 1, 2007, through June 30, 2008, Camden could not provide an approved Board resolution or a contract for the services.

For one PO during the period from July 1, 2007, through June 30, 2008, and another PO during the period from July 1, 2008, through June 30, 2009:

- Camden opened the POs, for a total cost of \$29,700 each, for a web-based lesson plan management tool. Each PO specified that the purchase was for a subscription renewal of such services. For the period from July 1, 2006, through June 30, 2007, Camden's Board approved the resolution to contract with the vendor for the same services. However, for the two periods from July 1, 2007, through June 30, 2008, and July 1, 2008, through June 30, 2009, Camden could not provide approved Board resolutions or contracts for the services.

For one PO, for the period from July 1, 2008, through June 30, 2009:

- A vendor provided host services for a 3-day mother/daughter conference hosted by Camden's School Based Youth Services program. The expenditure, which totaled \$32,577, was approved by Camden's Board as part of the Superintendent's report. However, we did not consider this sufficient to meet the N.J.S.A 18A-4a requirements for the purchase above the bid threshold of \$29,000 to be approved by the Board through resolution. Camden could not provide a Board resolution or contract for the expenditure.

In addition, we found the eight POs because they were reviewed as part of our sample. There could be additional purchases that exceeded the statutory bid threshold and lacked Board resolution and a signed contract that were not included in our sample or our prior audit. Therefore, there is still no assurance that we identified a complete universe and reported on all contracts awarded by Camden.

Per 34 C.F.R. § 80.36 (b)(1), “. . . subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law”

N.J.S.A. 18A: 18A-4a states, “[e]very contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the board of education”

According to N.J.S.A 18A: 18A-36b,

The contract shall be signed by all parties within the time limit set forth in the specifications, which shall not exceed 21 days, Sundays and holidays excepted, after the making of the award; provided, however, that all parties to the contract may agree to extend the limit set forth in the specifications beyond the 21-day limit required in this subsection.

In addition, N.J.S.A. 18A: 18A-40 states, “[a]ll contracts for the provision or performance of goods or services shall be in writing.”

Camden's purchasing agent circumvented policies and procedures for the procurement of goods and services valued above the statutory bid threshold. The purchasing agent stated that a resolution was not needed as long as the Board approved the purchase as part of the Superintendent's report. We disagreed with the explanation because the purchases should have been awarded through resolutions by Camden's Board as required by N.J.S.A 18A:18A-4a. Because the purchasing agent did not follow State law for procurements of goods and services for the eight POs we sampled that exceeded the bid threshold, the goods and services were not properly procured. As a result, there was no assurance that the goods and services were procured by Camden in accordance with Federal and State procurement requirements.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to—

- 5.1 Direct Camden to implement controls to ensure that the procurement of goods and services that exceed the statutory bid threshold complies with laws and regulations.
- 5.2 Provide training to Camden officials responsible for the procurement of goods and services to ensure compliance with laws and regulations.

NJDOE Comments

NJDOE disagreed with Finding No. 5, but agreed to take corrective actions to address Recommendations 5.1 and 5.2. NJDOE stated that N.J.S.A. 18A:18A-2n indicates that a PO is recognized as a contract. In its response to Recommendations 5.1 and 5.2, NJDOE stated that the Board would approve the superintendent's report by resolution,¹⁰ except when purchasing goods where it believes a PO is sufficient. Camden would provide training to all Camden officials responsible for the procurement of goods and services to ensure compliance with laws and regulations. In addition, NJDOE provided an excerpt from Camden's purchasing procedures (Attachment 2 of NJDOE's response), which included Camden's procedures for the purchase and procurement of goods and services.

OIG Response

We considered NJDOE's comments, but our finding remains unchanged. Although N.J.S.A. 18A:18A-2n established that a PO may serve as a contract, the eight POs in our finding were insufficient to serve as contracts. Because the eight POs exceeded the statutory bid threshold of \$29,000, the purchases should have been approved by a Board resolution and have a contract signed by all parties as required by State law. However, we agree POs can serve as contracts for purchases below the statutory bid threshold.

We reviewed NJDOE's response to Recommendation 5.1 and disagree that the Board approval of the superintendent's report by resolution would be in compliance with State law for purchases that exceeded the statutory bid threshold. According to N.J.S.A. 18A:18A-4a, each contract should be approved and awarded by Camden's Board by a separate resolution. The superintendent's report does not include separate resolutions. Therefore, the superintendent's report, even if approved by the Board through resolution, would not be sufficient to comply with N.J.S.A. 18A:18A-4a. Except for contracts being approved in the superintendent's report, the procedures for the purchase and procurement of goods and services included in NJDOE's comments, if implemented correctly, may be sufficient to address Recommendations 5.1 and 5.2.

¹⁰ Camden's superintendent's report is an agenda of items relative to the educational function of the district presented to the Board for its approval. For example, the report includes items related to curriculum and instruction, staff assignments, afterschool activities, and attendance at conferences.

FINDING NO. 6 – OIG Audits of Camden Identified Significant Internal Control Deficiencies

In performing the scope of work in this audit and the previous audits that we recently completed, we found Camden lacked adequate internal controls that affected its ability to effectively and efficiently administer Federal education funds and programs. During our review of the 197 non-salary related POs reported in this audit, we found that the Federal expenditures reported in Camden's accounting system for FYs 2007 and 2008 did not accurately reflect its ESEA expenditures. We concluded that Camden's accounting system did not ensure that its ESEA expenditures were allowable and supported in accordance with laws, regulations, and grant award agreements. We also concluded that Camden's equipment inventory system was inadequate for ensuring that equipment purchased with ESEA funds was properly recorded, reconciled, and safeguarded against loss, damage, and theft. In addition, we found that Camden lacked adequate management controls to ensure adequate oversight of its business office functions.

During our audit of contract related expenditures, ED-OIG/A02J0002, we reported that Camden lacked controls to adequately maintain and track contracts that exceeded the statutory bid threshold, to ensure that expenditures were supported and properly accounted for in its accounting system, and to ensure that it complied with Federal and State procurement requirements. We also reported that Camden did not have an adequate contract administration system to ensure that contract related ESEA expenditures were allowable and spent in accordance with applicable laws and regulations. Our audit of Camden's SES program, ED-OIG/A02K0011, found that Camden lacked adequate controls to ensure that SES providers were paid according to NJDOE's approved rates.

Camden's Lack of Fiscal and Management Controls Impeded Its Ability to Effectively Administer Non-Salary Federal Education Funds

This audit of non-salary expenditures found that Camden's lack of fiscal controls resulted in an accounting system that did not accurately reflect its expenditures and expenditures that were unallowable and unsupported. We also found that Camden lacked controls to ensure equipment was properly maintained in its inventory system. In addition, we found that Camden lacked adequate management controls to oversee the day-to-day functions within Camden's business office.

Because of Camden's insufficient fiscal controls over its accounting system, expenditures in its accounting system were different from expenditures reported in its audited financial reports for FYs 2007 and 2008. In addition, Camden's expenditures were overstated by \$94,604 because of duplicate payments in its accounting system. Camden had unallowable expenditures of \$197,830 because it did not ensure ESEA expenditures were used for allowable activities and did not exceed spending limitations. Camden also lacked controls to ensure that pertinent documentation was retained, which resulted in \$1,362,161 in unsupported expenditures. Based on this, we concluded that Camden's administration of Federal education funds was ineffective to ensure Federal education funds were expended in accordance with Federal laws and regulations.

During this audit, we also found that Camden did not implement proper controls to ensure that equipment was maintained and tracked in its inventory system. Upon our request, Camden was

unable to provide information, such as the location of equipment purchased with eight POs we reviewed, from its inventory system. As a result, we could not verify that the equipment was used for its intended education program purposes and safeguarded against loss, damage and theft. Therefore, we concluded Camden's inventory system was inadequate and inaccurate.

Because of Camden's inadequate management controls, Camden's staff assignments resulted in an inadequate segregation of duties, which enabled them to circumvent Camden's policy and procedures. Camden eliminated the property officer position and assigned its purchasing agent the duties and responsibilities of the property officer's position. The designation of the purchasing agent, who is responsible for creating POs in Camden's accounting system, for being responsible for tracking inventory was a direct conflict of interest. Despite being informed previously by the OIG and its IPA of the conflict of interest, Camden had not reassigned the property officer's duties and responsibilities to another Camden staff person. In addition, Camden's business administrator, who started in January 2009, delegated the task of examining, auditing and certifying payments for POs to the accounts payable manager. We also concluded that the responsibility of auditing and approving payments of POs was in conflict with the manager's responsibilities of overseeing the accounts payable department. Without adequate segregation of duties, opportunities exist to commit fraud, waste, and abuse.

We also found that Camden's accounts payable specialist, who is responsible for paying vendor invoices, circumvented policies and procedures by paying vendors without proper authorization. Without the required approval, the accounts payable specialist was not authorized to process vendor payments. Camden's accounts payable specialist improperly processed payments for POs that did not have the required approval from Camden's business administrator or designee. We concluded that Camden's management controls were inadequate to prevent the accounts payable specialist from circumventing the policies and procedures for vendor payments.

Camden Lacked Adequate Controls to Properly Procure Good and Services in Compliance with Applicable Requirements

During our audit of Camden's contract related expenditures, we found that Camden lacked controls to adequately maintain a contract administration system for contracts that exceeded the statutory bid threshold. Camden was unable to provide a list of contracts awarded above the statutory bid threshold and funded by ESEA upon our request. We also found that Camden made payments to contracted vendors that were above the approved contract amount resulting in unallowed ESEA expenditures. Camden also did not ensure that it retained properly signed contracts and supporting documentation of services rendered and goods purchased. As a result, more than \$7 million in expenditures were unsupported, and there was no assurance that an executable agreement existed on the scope of the work to be performed. Additionally, Camden misallocated ESEA expenditures, duplicated encumbrances, and duplicated budgeted funds in its accounting system. By not properly accounting for funds and expenditures in its accounting system, expenditures were overstated, and funds were at risk of lapsing and being over-expended.

In addition, we found that Camden lacked adequate controls to ensure that goods and services were procured in accordance with Federal and State requirements. Camden did not ensure that the contracted goods and services were reasonably priced and that noncompetitive contracts met Camden's needs at the highest quality and at a fair price because it did not perform cost and price analysis as required. Because Camden did not follow its procedures to retain documentation, it

could not support that it followed the procurement process for competitive proposals and sealed bids in accordance with Federal requirements. Camden's controls were inadequate to prevent vendors from providing services prior to Board approval because it lacked adequate written procedures. Based on this lack of controls, Camden did not comply with Federal and State requirements for procuring goods and services.

Camden's Lack of Adequate Controls When Administering Its SES Program Resulted in Improper Payments

During the audit of Camden's administration of its SES program, we found that Camden did not have proper controls to ensure that SES providers were paid according to NJDOE's approved rates. Camden did not verify that charges submitted by the SES providers were appropriate by confirming that the rates charged were based on the rates approved by NJDOE. Without verifying the rates, Camden accepted the erroneous rates and overpaid seven SES providers \$392,323 in unallowed expenditures. We concluded that Camden lacked adequate controls to ensure that SES providers were paid using NJDOE's approved rates.

According to 34 C.F.R. § 76.702, "[a] State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

According to OMB Circular A-133 § ___. 300, "The auditee shall . . . [m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

OMB Circular A-133 Compliance Supplement, Part 6 (March 2009) provides a description of the components of internal control and examples of characteristics common to compliance requirements:

Control Environment sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure . . .

- Management's respect for and adherence to program compliance requirements.

.....

Control Activities are the policies and procedures that help ensure that management's directives are carried out . . .

- Operating policies and procedures clearly written and communicated.
- Management prohibition against intervention or overriding established controls.
- Adequate segregation of duties provided between performance, review, and recordkeeping of a task.

We found Camden had significant internal control deficiencies because it did not have sufficient written procedures to ensure the proper administration of Federal education programs and funds. During our audits, we interviewed several Camden officials who explained their purchasing and contracting procedures. However, we found that the procedures were circumvented or not followed. We also found that Camden's high turnover of senior level staff within the business

office contributed to the significant internal control deficiencies. During our audit period from July 1, 2005, through June 30, 2009, Camden had five different business administrators and many staff within the business office reassigned to other duties or were delegated additional duties. This resulted in misunderstandings among the staff regarding their responsibilities, inconsistencies in the administration of and accounting for Federal education programs and funds, and inadequate oversight and accountability from senior management.

We also concluded that these significant internal control deficiencies affected Camden's ability to effectively and efficiently implement its comprehensive schoolwide plan. During our audit period, all but one of Camden's schools operated under an approved comprehensive schoolwide plan, blending Federal, State and local funds to achieve its schoolwide plan program goals. Unlike ESEA funds which provide specific requirements regarding allowable expenditures for purchases of goods and services, the blended funds could be expended with few restrictions. Camden's fiscal and management controls over its accounting for expenditures were inadequate to ensure that schoolwide expenditures were supported and expended for their intended purposes.

Because Camden did not have adequate fiscal and management controls, there is no assurance that Federal education funds were used for their intended purposes and safeguarded against fraud, waste, and abuse. Based on these cumulative and recurring internal control deficiencies, the Department should take appropriate actions to protect Federal education funds awarded to Camden.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education work with NJDOE to—

- 6.1 Designate Camden as a high-risk grantee.
- 6.2 Determine appropriate special conditions for Camden's Federal education funds. This includes appointing a third party servicer to administer Camden's funds.
- 6.3 Rescind Camden's flexibilities in operating a schoolwide plan until effective internal controls are implemented to provide reasonable assurance that Camden is managing its Federal education funds in compliance with Federal regulations.

NJDOE Comments

NJDOE neither agreed nor disagreed with Finding No. 6 and did not respond to Recommendations 6.2 and 6.3. In its response to Recommendation 6.1, NJDOE stated that it met with officials from the Department's Office of Risk Management Service to discuss Camden and to determine whether Camden should be designated a high-risk grantee. NJDOE's management is still in discussion with the Department and no decision has been made. NJDOE stated that staff negligence caused the internal control issues noted in the audit report, not a lack of internal controls. According to the State Monitor for Camden, the internal controls at Camden have improved significantly since the OIG's audit period. In addition, NJDOE stated that it was not a conflict of interest for the accounts payable specialist to examine, audit, and certify claims for payment for POs. However, Camden would authorize the comptroller, instead of the accounts payable specialist, to examine, authorize, and certify claims for payment.

OIG Response

We considered NJDOE's response and our position remains unchanged. We note that the Independent Public Accountant that prepared Camden's Comprehensive Annual Financial Report for FY 2010 expressed an unqualified opinion on governmental and fiduciary funds, a disclaimer opinion on the proprietary fund, and a qualified opinion on compliance over major Federal programs. For FY 2010, the Independent Public Accountant reported a total of 29 findings and 19 recurring prior year findings. Camden changed its Independent Public Accountant in FY 2011. That Independent Public Accountant, who prepared Camden's Comprehensive Annual Financial Report for FY 2011, expressed an unqualified opinion on Camden's financial statements and compliance over major Federal programs, and reported a total of five findings and three recurring prior year findings. However, the issues we identified during our audits of Camden were systemic and recurring. Therefore, the serious actions that we recommended are necessary to ensure corrective actions are fully implemented and maintained to correct and prevent the deficiencies. In addition, the lack of adequate internal controls created the opportunity for staff negligence. We encourage the continued discussions with the Office of Risk Management Service, and that NJDOE and Camden work with the Department to correct internal control deficiencies. In addition, we disagree with NJDOE's response that it was not a conflict of interest for the accounts payable specialist to examine, audit, and certify claims for payment for POs. Without the required approval, the accounts payable specialist was not authorized to process vendor payments. We also acknowledge that some of the corrective actions that NJDOE stated in its response may address our concerns if implemented properly.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether Camden's non-salary expenditures funded through ESEA were allowable and spent in accordance with applicable laws and regulations. Our audit period was from July 1, 2006, through June 30, 2009.

Originally, the objective of our audit was to determine whether Camden had adequate controls to properly account for its Federal education funds in compliance with Federal laws and regulations for the period from July 1, 2005, through June 30, 2006. We revised our scope to segregate our audit of contract-related expenditures and SES expenditures for the period from July 1, 2005, through June 30, 2009, and non-salary expenditures for the period from July 1, 2006, through June 30, 2009. This draft report presents the findings related to the audit of non-salary expenditures, excluding contract related and SES expenditures reported in separate audit reports noted below. Audit results related to contract and SES expenditures were issued in separate reports titled "Camden City Public School District's Administration of Federal Education Funds," ED-OIG/A02J0002, dated June 6, 2011, and "Camden City Public School District's Administration of its Supplemental Educational Services Program," ED-OIG/A02K0011, dated May 4, 2011. The reports are available for review on the OIG Web site, under "Office of Elementary and Secondary Education" at <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a02j0002.pdf> and <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a02k0011.pdf>.

To accomplish our objective, we:

- Obtained an understanding of Camden's internal controls over purchases of goods and services by reviewing Camden's policies and procedures and conducting interviews with Camden officials during our preliminary review and subsequent audit work.
- Interviewed:
 - Camden's Business Administrator;
 - Camden's State Monitor;¹¹
 - Camden's Comptroller;
 - Camden's Purchasing Agent;
 - Camden's Director of Technology Department;
 - Camden's accounts payable officials; and
 - Computer Solutions, Inc., President.¹²
- Reviewed selected provisions of the ESEA, Code of Federal Regulations, and OMB Circulars.
- Reviewed selected New Jersey State statutes.
- Reviewed selected sections of Camden City Board's Governance Manual related to purchases paid with ESEA funds.

¹¹ In October 2006, NJDOE appointed a State Monitor for Camden. State Monitors may be appointed for school districts with serious fiscal deficiencies identified during a district's annual audit.

¹² Computer Solutions, Inc., developed and provided support for accounting system software used by Camden.

- Reviewed NJDOE's Electronic Web-Enabled Grant System for Camden's ESEA funding for the period from September 1, 2006, through August 31, 2009.
- Reviewed Camden's documentation related to sampled non-salary expenditures that were paid with ESEA funds, including (but not limited to):
 - Board minutes for selected non-salary expenditures;
 - PO files and supporting documentation; and
 - Chart of ESEA accounts.
- Obtained and examined Camden's expenditure reports for ESEA funds for FYs 2007, 2008, and 2009.
- Obtained and reviewed Camden's State Monitor's reports for FY 2009.
- Obtained and reviewed the New Jersey State Auditor report of Camden for the period from July 1, 2006, through February 28, 2009.
- Obtained and reviewed the NJDOE Recovery Act monitoring report of Camden for the period from July 1, 2009, through November 15, 2010.
- Obtained and reviewed July 2009 and September 2009 Government Accountability Office reports to Congressional Committees on Recovery Act spending in New Jersey.
- Obtained and reviewed Camden's CAFRs Single Audit sections for FYs 2007, 2008, and 2009.
- Conducted interviews with the IPAs that performed Camden's financial statements and compliance audits for FYs 2007, 2008, and 2009.
- Reviewed IPA working papers for FY 2009 relating to ESEA expenditures.

During our review, we used computer-generated expenditures extracted from Camden's accounting system to assist us with our review of non-salary expenditures. To determine whether the expenditures provided by Camden were complete and accurate, we compared expenditures from the FYs 2007, 2008, and 2009 audited financial statements to the expenditures provided by Camden. We found that the audited financial statements differed from Camden's accounting system expenditures for Federal fund accounts for FYs 2007 and 2008, and for blended fund accounts for FY 2008. The differences were attributed to Camden's IPA making adjusting journal entries to Camden's financial records that Camden accepted but did not subsequently reflect in its accounting system. As stated in Finding No. 1, we could not identify all ESEA non-salary expenditures because sufficient details regarding the reclassified expenditures were not available.

We determined that the ESEA funds represented in Camden's accounting system were sufficiently reliable to use to randomly select our sample of non-salary expenditures to address our audit objective. However, because Camden's accounting system did not accurately reflect its ESEA expenditures for FYs 2007 and 2008 (see Finding No. 1), there was no assurance that we had identified all unallowable and unsupported non-salary expenditures charged to ESEA funds (see Finding Nos. 2 and 3).

We used stratified sampling to select a statistical random sample of non-salary expenditures. We used the computer-generated expenditure reports extracted from Camden's accounting system to develop the non-salary expenditures universe and select samples for testing. We used data analysis software to combine and summarize all the expenditures provided by Camden by PO number. For the purposes of our review, we excluded from Camden's expenditures records for

salary related expenditures, refund transactions, and blended funds expenditures for schools that did not receive Federal funds during our audit period.

We separately stratified the non-salary expenditures for Federal and blended fund accounts for each fiscal year during our audit period using the following stratification pattern (see Table 3 below).

Stratum	Lower Bound	Upper Bound
Stratum 1	\$0	\$500
Stratum 2	\$500	\$2,500
Stratum 3	\$2,500	\$10,000
Stratum 4	\$10,000	\$50,000
Stratum 5	\$50,000	\$999,999
Stratum 6	\$1,000,000	\$10,000,000

We did not consider expenditures under \$500 for our testing. Therefore, we did not include stratum 1 records in our universe and did not select a random sample from stratum 1 for both Federal and blended funds accounts. For FYs 2007 and 2008, Federal fund accounts expenditures included an additional stratum 6 with one record in each year that represented a line item transfer of funds from Federal fund accounts to the blended fund accounts that was reviewed as part of sampled POs for the blended fund accounts. Therefore, we excluded stratum 6 for Federal fund accounts from further review.

The universe consisted of records included in strata 2 through 5. For the period from July 1, 2006, through June 30, 2009, the universe of non-salary expenditures funded with ESEA funds was 5,039 PO records totaling \$32,583,031 (see Table 4 below).

Fiscal Year	Number of Records	Amount of Expenditures
Federal Fund Accounts		
2007	337	\$5,001,148
2008	510	\$5,439,760
2009	672	\$10,528,550
Subtotal	1519	\$20,969,458
Blended Fund Accounts		
2007	755	\$2,551,593
2008	1149	\$3,571,297
2009	1616	\$5,490,683
Subtotal	3520	\$11,613,573
Universe Total	5039	\$32,583,031

We randomly selected samples for strata 2 through 5 for Federal and blended fund accounts for each fiscal year during our audit period. We also established that if the randomly selected record was previously reviewed as part of our contract or SES related expenditures audits, that record was omitted from further testing and replaced with the next randomly selected record in our sample of non-salary expenditures. Therefore, for the period from July 1, 2006, through

June 30, 2009, we sampled 197 PO records totaling \$4,715,846 of non-salary expenditures (see Table 5 below).

Table 5: Sample of Non-Salary Expenditures		
Fiscal Year	Number of Records Sampled	Amount of Expenditures Sampled
Federal Fund Accounts		
2007	34	\$583,768
2008	31	\$296,499
2009	36	\$1,837,053
Subtotal	101	\$2,717,320
Blended Fund Accounts¹³		
2007	32	\$381,660
2008	31	\$347,871
2009	33	\$1,268,995
Subtotal	96	\$1,998,526
Sample Total	197	\$4,715,846

We conducted our audit fieldwork at Camden’s office in Camden, New Jersey, from November 19, 2008, through February 24, 2011. However, on April 3, 2009, the audit was placed on hold and resumed on December 14, 2009. Prior to the audit, from November 14, 2007, through March 20, 2008, we performed a preliminary review of Camden’s administration of Department funds. We visited Camden’s IPA offices in Voorhees, New Jersey, and Ocean City, New Jersey, to review the work of the IPAs that performed Camden’s financial statements and compliance audits. We held our exit conference with NJDOE and Camden officials on April 7, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

¹³ We applied the percentage of ESEA funds for each Finding where applicable.

Enclosure A

Glossary

Adverse Opinion – An Independent Public Accountant’s audit opinion that an entity’s financial statements as a whole are not in conformity with the generally accepted accounting principles or do not accurately reflect the entity's financial position.

Blended Funds – Funds that represent the comingling of schoolwide Federal, State, local, and any other municipal funds.

Comprehensive Annual Financial Report – An annual report on consolidated financial statements prepared by the Independent Public Accountant and is management’s representation of fiscal year finances.

Disclaimer (of Opinion) – An Independent Public Accountant’s statement disclaiming any opinion regarding the entity's financial condition because of its inability to obtain sufficient appropriate audit evidence.

Qualified Opinion – An Independent Public Accountant’s audit opinion that areas of an entity’s financial statements contained a scope limitation and/or did not conform with generally accepted accounting principles.

Schoolwide Schools – Schools with State approved comprehensive plans that allow schools to blend their Federal, State, and local funds to upgrade the entire educational program of a school serving eligible children.

Unqualified Opinion – An Independent Public Accountant’s audit opinion that an entity’s financial statements fairly represent its financial position, results of operations, and changes in cash flows, and its financial statements conform with generally accepted accounting principles.

Enclosure B: NJDOE Comments



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

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

CHRISTOPHER D. CERF
Acting Commissioner

December 2, 2011

Mr. Daniel P. Schultz
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
Financial Square
32 Old Slip, 26th Floor
New York, NY 10005

Dear Mr. Schultz:

The New Jersey Department of Education (NJDOE) has received and reviewed the findings and recommendation contained in the United States Department of Education (USDOE), Office of Inspector General's Audit Report titled Camden City Public School District's Administration of Non-Salary Federal Education Funds (Control Number ED-OIG/A02K0014). Below is the NJDOE's response to the findings and recommendations contained in the report.

FINDING NO. 1 – Camden's Accounting System for FYs 2007 and 2008 Did Not Accurately Reflect Its ESEA Expenditures

Camden's accounting system did not accurately and completely identify the source and use of all expenditures that were funded with ESEA funds for FYs 2007 and 2008. We compared Camden's ESEA expenditure reports for the audit period from July 1, 2006, through June 30, 2009, to the Federal expenditures reported in its FYs 2007, 2008, and 2009 audited financial statements. For FYs 2007 and 2008, we found differences in ESEA expenditures between Camden's accounting system and its audited financial statements. The differences were attributed to the proposed adjusting journal entries by the IPA to reclassify expenditures to ensure accurate accounting of Camden's Federal and non-Federal expenditures. Camden accepted the IPA's proposed adjusting journal entries, which are reflected in Camden's audited financial statements. However, Camden never recorded the adjustments in its accounting system.

We were able to determine the total value of Camden's Federal and blended fund accounts related to the expenditures that comprised the differences between its accounting system and audited financial statements. However, the specific individual expenditure transactions that Camden agreed to reclassify were not retained by Camden or its IPA. For FYs 2007 and 2008, there was a difference of \$784,495 and \$339,508,

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respectively, for Federal fund accounts and a \$104,073 difference for the FY 2008 blended fund accounts between Camden's accounting system and its audited financial statements. For example, for FY 2007, Camden's Title I School Improvement Grant carryover funds and Title II, Part A, Teacher and Principal Training and Recruiting Fund (Title II), carryover funds expenditures recorded in its accounting system were \$520,246 and \$160,205, respectively. These two expenditures were more than the amounts reported in its audited financial statements. For FY 2008, Camden's accounting system recorded Title I expenditures that were \$393,582 more than the amount reported in its audited financial statements.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to—

- 1.1 Develop and implement internal controls including, but not limited to, updating its accounting system with adjusting journal entries when applicable, to ensure that its accounting system accurately identifies the source and use of Federal education funds.

NJDOE RESPONSE

The Camden Board of Education placed funds in the 2011-2012 budget approved in April 2011 for the purchase of new accounting, payroll and human resource software because of inadequacies of its current software including lacking the ability to update expense and revenue accounts once the year is closed.

FINDING NO. 2 – Camden Charged \$372,808 in Unallowed Non-Salary Expenditures to ESEA Funds

Camden charged \$372,808 in unallowable non-salary expenditures to ESEA funds for 22 of the 197 POs we reviewed. For two POs, Camden improperly charged purchases of computers and servers to Title II funds totaling \$159,408. For another two POs, Camden made duplicate expenditures totaling \$94,604. For 17 POs, Camden had questionable expenditures totaling \$80,374. For one PO, Camden exceeded the allowable Title IV, Part A, Safe and Drug-Free Schools and Communities Act (Title IV), limit for the purchase of security equipment by \$38,422.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to—

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- 2.1 Return \$372,808 in expenditures that were not allowed, with applicable interest, to the Department.
- 2.2 Review its accounting records to determine whether there are other duplicate expenditures for the period from July 1, 2006, through June 30, 2009, and return any duplicate expenditures, with applicable interest, to the Department.
- 2.3 Obtain refunds from vendors for the duplicate expenditures for the period from July 1, 2006, through June 30, 2009, and return any duplicate expenditures, with applicable interest, to the Department.
- 2.4 Develop and implement policies and procedures that require the business administrator to monitor the purchasing process to ensure that purchase orders are properly audited and approved prior to payment in accordance with State statutes.
- 2.5 Provide training to accounts payable officials to ensure that payments are not made before purchase orders are properly audited and approved in accordance with State statutes.
- 2.6 Follow its policies and procedures to ensure proper approval of POs before they are submitted to the accounts payable department and payments are made for purchased goods and services.
- 2.7 Implement proper accounting controls to ensure that ESEA funds are effectively disbursed and accounted for in its accounting system.

NJDOE RESPONSE

- 2.1 The total to be returned should be \$197,830, not the \$372,808 requested. The duplicate payment of \$56,000 was recovered and \$38,604 never left the district. Since expenditures for subsequent years are first charged to carryover and then charged to the current year, the refunds mean that expenditures of \$94,604 are charged to carryover leaving more funds to expend in a current year. This carries forward to the 2011-2012 year. Amended carryover reports will be filed to account for these refunds.

The OIG asserts that because the secretary's verification for an individual purchase order is not signed by the board secretary that it is questionable. If the only thing lacking is a board secretary signature and the voucher package is complete with an invoice, receiving copy and vendor certification, there is nothing questionable in our opinion. The board secretary signs off on the bill list for all purchase orders being submitted to the board for payment. The full \$80,374 should NOT be returned.

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- 2.2 The district will review its accounting records to determine if there are any other duplicate payments and contact the vendors to receive a refund. If a refund is not received, it will return any duplicate expenditure with applicable interest to the department. If a refund is received, it will adjust carryover reports and expend the funds in the current year.
- 2.3 The district will review its accounting records to determine if there are any other duplicate payments and contact the vendors to receive a refund. If a refund is not received, it will return any duplicate expenditure with applicable interest to the department. If a refund is received, it will adjust carryover reports and expend the funds in the current year.
- 2.4 The business administrator will prepare a resolution authorizing the comptroller to audit and approve purchase orders. However, we believe the business administrator is already monitoring this process when the business administrator signs the bill list prior to any checks being issued. The only error was that the business administrator failed to have the board approve a resolution.
- 2.5 Accounts payable officials will be trained in the procedures to be followed when paying a bill. The accounts payable department was instructed during May 2011 on how to use the accounting system to check for duplicate invoices.
- 2.6 Camden Board of Education employees will follow its policies and procedures to ensure proper approval of purchase orders before the accounts payable department processes them for payment.
- 2.7 Included in the above.

**FINDING NO. 3 – Camden Lacked Adequate Documentation to Support
Approximately \$1.4 Million of ESEA Expenditures**

For the period from July 1, 2006, through June 30, 2009, we found that Camden did not have sufficient documentation to support \$1,362,161 in non-salary expenditures charged to ESEA funds for 27 of 197 POs we reviewed. For 24 of the 27 POs, Camden's records lacked documentation to support \$938,540 in ESEA expenditures. For the remaining 3 POs, Camden could not provide evidence to support the use of computers and related equipment and accessories totaling \$423,621 in ESEA expenditures.

Because Camden officials did not follow procedures for maintaining documentation and did not have controls to ensure that documentation reviewed by others was returned and properly filed, \$938,540 in ESEA expenditures was unsupported. Because Camden officials could not provide evidence regarding the use of computers and related equipment and accessories, there was no assurance that the \$423,621 was expended for

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Title II activities. Also, by not retaining documents to support expenditures, Camden could not demonstrate its compliance with Federal record-keeping and program requirements.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to—

- 3.1 Provide support for \$1,362,161 in expenditures or return the unsupported amount of ESEA funds, less \$2,168 returned based on Recommendation 2.1, with applicable interest, to the Department.
- 3.2 Implement procedures to ensure that adequate documentation is maintained to support expenditures for and uses of purchased goods and services.

NJDOE RESPONSE

- 3.1 The 219 computers and printers were delivered to Principals, Vice Principals, Supervisors, Educational Program Specialist, and Math and Literacy coaches and the balance was delivered to the Riggs Center for professional development. The purchase of the computers and accessories is part of the Technology and Professional Development Plan for the district. Administrators were able to utilize technology resources and the skills to effectively and efficiently ensure that the district functions at an optimum level to support the educational program and satisfy administrative demands of a District In Need of Improvement.

This is in accordance with guidelines provided by the United States Department of Education which state, "*Title II, Part A* provides these agencies with the flexibility to use these funds creatively to address challenges to teacher quality, whether they concern teacher preparation and qualifications of new teachers, recruitment and hiring, induction, professional development, teacher retention, or the need for more capable principals and assistant principals to serve as effective school leaders."

The technology department maintains a list of all computers purchased by the district and will send NJDOE a location for each computer.

St. Joseph Pro-Cathedral School, through Title II-A funds, received 11 laptop computers during the 2008-2009 school year. The laptops have been assigned to classroom teachers and their serial numbers have been logged. The use and location of these laptops are monitored and the teachers are expected to account

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for all activities. The teachers use these laptops to integrate technology into the classroom through careful research and planning by tracking test scores of the students and careful analysis of the online test scores and data which in turn drives the instruction in the classroom.

- 3.2 The balance of this recommendation is to return \$938,540 because of missing documentation. The issue here is not that the goods or services were not received, but that in most cases the receiving copy was signed prior to the receipt of those goods or services. The school district will attempt to obtain duplicate invoices to replace those missing. (See Attachment 1 - an excerpt from the Camden City Public Schools regarding payment procedures.)

Camden is in the process purchasing new accounting software due to inadequacies of the current system. The school district is considering software that will allow it scan all documents required to pay a claim in order to have an electronic filing system that prevent documents from being misplaced when handled by multiple agencies.

FINDING NO. 4 – Camden Did Not Have an Adequate Inventory System

Camden did not have an adequate inventory system to ensure that equipment purchased with ESEA funds was properly managed in accordance with Federal requirements. We found that 8 of the 197 POs we sampled were for the purchase of smart interactive whiteboards with projectors, computer servers, security systems and cameras, and a basketball scoreboard. Each of these items exceeded the \$2,000 amount for designation as accountable equipment. When we requested inventory information, such as location and serial numbers, for the equipment purchased from the eight POs, Camden was unable to provide the information. During our audit period, Camden had a property officer who was responsible for maintaining the inventory system. When this position was eliminated, on July 1, 2010, Camden delegated the property officer's responsibilities to the purchasing agent. However, the purchasing agent was not given access to the inventory system. Consequently, we could not obtain information from Camden's inventory system for these eight POs including the existence and location of the equipment.

Because Camden could not provide the equipment inventory information for the eight POs we sampled, we were unable to verify whether the equipment was used for its intended education program purposes as required by ESEA. In addition, because Camden's property officer had not maintained proper controls over Camden's inventory system, there is no assurance that equipment purchased with Federal education funds was properly recorded and classified in Camden's inventory system in accordance with applicable laws and regulations. Also, because Camden had not updated its inventory system to reflect the annual inventory reports submitted by American Appraisal, we concluded that Camden's equipment was not properly managed in its system and safeguarded against loss, damage, and theft.

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RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to direct Camden to develop and implement—

- 4.1 An inventory tracking system that includes sufficient details to ensure that equipment purchased with Federal funds is properly managed as required by laws and regulations.
- 4.2 Controls to ensure that the inventory of equipment valued at more than \$2,000 purchased with Federal funds is properly reconciled with the inventory records as required by laws and regulations.
- 4.3 Controls to ensure that the equipment valued at more than \$2,000 purchased with Federal funds is properly used for its intended Federal program purposes as required by laws and regulations.

NJDOE RESPONSE

- 4.1 & 4.2 The purchasing agent did in fact have access to inventory system. He is the one who arranged for American Appraisal to perform an inventory that took place during the summer of 2009. The inventory established by American Appraisal is the Camden official inventory system and is updated annually. Camden has the American Appraisal inventory in electronic format and owns it.

Camden Board of Education established the position of fixed assets specialist. The fixed asset specialist will make visits to the schools to make sure that inventory listed in the American Appraisal inventory is actually in place. A procedure is in place to move or discard inventory and to track this with the American Appraisal inventory system.

- 4.3 The Camden Supervisor of Funded Programs will only approve equipment requisitions that are supported with a written reasonable and allowable justification under each Federal program purpose. The supervisor or designee will monitor the equipment to ensure that is only used for its intended purpose. The fixed assets specialist will track equipment in the district's inventory system.

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FINDING NO. 5 – Camden Did Not Properly Procure Goods and Services for Purchases that Exceeded the Statutory Bid Threshold

Camden did not properly procure goods and services for purchases that exceeded the statutory bid threshold of \$29,000 as required by State law. We found that for 8 of the 197 POs we sampled, Camden used its PO process when these procurements of goods and services should have been procured contractually. Any procurement of goods and services exceeding \$29,000 must be approved by Camden's Board through resolution and have a signed contract with the vendor. The eight purchases exceeded the statutory bid threshold of \$29,000 and lacked an approved Board resolution and a signed contract with the vendor as required by State law.

Camden's purchasing agent circumvented policies and procedures for the procurement of goods and services valued above the statutory bid threshold. The purchasing agent stated that a resolution was not needed as long as the Board approved the purchase as part of the Superintendent's report. We disagreed with the explanation because the purchases should have been awarded through resolutions by Camden's Board as required by N.J.S.A. 18A:18A-4a. Because the purchasing agent did not follow State law for procurements of goods and services for the eight POs we sampled that exceeded the bid threshold, the goods and services were not properly procured. As a result, there was no assurance that the goods and services were procured by Camden in accordance with Federal and State procurement requirements.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require NJDOE to—

- 5.1 Direct Camden to implement controls to ensure that the procurement of goods and services that exceed the statutory bid threshold complies with laws and regulations.
- 5.2 Provide training to Camden officials responsible for the procurement of goods and services to ensure compliance with laws and regulations.

NJDOE RESPONSE

The Camden School District disagrees with the auditors' finding as it pertains to State law for signed contracts. N.J.S.A. 18A:18A-2n indicates that a purchase order is recognized as a contract. Specifically it defines a contract as "any agreement including but not limited to a *purchase order* or a formal agreement." However, the district will perform the following corrective actions to address the OIG recommendations except when purchasing goods where it believes a purchase order is sufficient.

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- 5.1 The Camden Board of Education will approve the superintendent's report by resolution in order to comply with NJSA 18A:18A-4a. Attachment 2 contains an excerpt from the Camden Board of Education Procedures Manual showing that proper controls are in place to ensure that the procurement of goods and services that exceed the statutory bid threshold complies with laws and regulations.
- 5.2 The district will provide training to all Camden officials responsible for the procurement of goods and services to ensure compliance with laws and regulations.

FINDING NO. 6 – OIG Audits of Camden Identified Significant Internal Control Deficiencies

In performing the scope of work in this audit and the previous audits that we recently completed, we found Camden lacked adequate internal controls that affected its ability to effectively and efficiently administer Federal education funds and programs. During our review of the 197 non-salary related POs reported in this audit, we found that the Federal expenditures reported in Camden's accounting system for FYs 2007 and 2008 did not accurately reflect its ESEA expenditures. We concluded that Camden's accounting system did not ensure that its ESEA expenditures were allowable and supported in accordance with laws, regulations, and grant award agreements. We also concluded that Camden's equipment inventory system was inadequate for ensuring that equipment purchased with ESEA funds was properly recorded, reconciled, and safeguarded against loss, damage, and theft. In addition, we found that Camden lacked adequate management controls to ensure adequate oversight of its business office functions.

Because Camden did not have adequate fiscal and management controls, there is no assurance that Federal education funds were used for their intended purposes and safeguarded against fraud, waste, and abuse. Based on these cumulative and recurring internal control deficiencies, the Department should take appropriate actions to quickly and effectively protect Federal education funds awarded to Camden.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education work with NJDOE to—

- 6.1 Designate Camden as a high-risk grantee.
- 6.2 Determine appropriate special conditions for Camden's Federal education funds. This includes appointing a third party servicer to administer Camden's funds.
- 6.3 Rescind Camden's flexibilities in operating a school-wide plan until effective internal controls are implemented to provide reasonable assurance that Camden is managing its Federal education funds in compliance with Federal regulations.

Mr. Daniel P. Schultz
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December 2, 2011

NJDOE RESPONSE

The NJDOE met with officials of the USDOE, Office of Risk Management Service in November 2011 to discuss the Camden School District. One of the topics of discussion was whether or not to designate the district as a high-risk grantee. The NJDOE management is still in discussions about this issue.

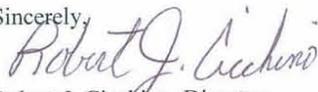
The department currently has a State Monitor in the district. The State Monitor has noted that internal controls have improved significantly since the audit period. The district now has adequate written procedures and new accounting software is being reviewed and will be purchased during FY 2012 to address deficiencies.

A property specialist position was created and reports directly to the comptroller. Also, an inventory system is now in place. Even if the recommendations of the OIG were in place during the time of the audit, staff negligence caused the internal control issues, not the lack of internal controls.

It was not a conflict of interest for the accounts payable specialist to examine, audit and certify payments for purchase orders. The accounts payable specialist was, in fact, authorized to pay vendors. Segregation of duties were adequate in that the purchasing department has no authority or ability to pay any invoices and accounts payable has no authority or ability to issue purchase orders. In addition, the business administrator approves the bill list prior to payment of any invoices. However, the district will enhance this separation further by authorizing the comptroller instead of the accounts payable specialist to examine, authorize and certify claims for payment.

We trust that our responses and corrective actions satisfy the concerns raised in the report. Should you have any questions or need further information, please contact me at 984-5593.

Sincerely,



Robert J. Cicchino, Director
Office of Fiscal Accountability and Compliance

RJC/MA/CP/Response to 3rd OIG Audit of Camden
Attachments

c: Christopher Cerf
Barbara Gantwerk
Karen Campbell
Michael Azzara
Justin Barra

ATTACHMENT 1

**CAMDEN CITY PUBLIC SCHOOLS
GENERAL LEDGER PAYMENT PROCEDURES**

This section defines the procedures used to process payments for all goods and services except payroll, student activity accounts and student awards and scholarships.

1. Expenditures will be made by check only each made payable to the order of the vendor entitled to receive the amount thereof and specifying the object for which it is issued, signed by the president and secretary of the board of education and by the treasurer of school moneys.
2. The procedure for payment of a claim will be initiated upon receipt of an original invoice. The accounts payable department will verify that a purchase order was issued for the goods or service as stated on the invoice and that a contract exists in accordance with the contract administration procedure.
3. Any claims for payment that are equal to or exceed 15% of the bid threshold established by New Jersey statute shall be verified by affidavit, or by a signed declaration in writing, contained therein or annexed thereto, to the effect that the same are correct in all particulars, that the articles have been furnished or the services rendered as stated therein and that no bonus has been given or received on account thereof. The affidavit or signed declaration shall be for the same amount as the payment being requested. If the affidavit or signed declaration does not equal the amount of the invoice, the accounts payable department will return a corrected one for signature.
4. Claims for payment for services to individuals shall include attendance sheets signed by the individuals served. This would include staff development, home instruction, occupational, physical and speech therapy, psychiatric, psychological, and counseling services. Payments for tuition will include the student's name and dates of attendance.
5. A signed receiver's verification will be sent to the accounts payable department after the goods or services are received. This form is printed when the purchase order is printed and sent to the initiator of the purchase order. The amount shown on the receiving copy will equal the amount of goods or services received. If the receiving verification does not agree with the invoice, the accounts payable department will send a corrected verification for signature. The receiving verification will include signed attendance sheets for any purchase orders or contracts that are based on a cost per individual served in the price. This would include staff development and home instruction.
6. The accounts payable department will then match the invoice, purchase order, receiving certification and, if necessary, vendor affidavit or signed declaration for the invoice. It will then confirm that that the payment requested when added to payment already made does not exceed the amount of contract or purchase order.

No payments will be made that exceed the balance remaining on the contract. If an invoice brings the amount to be paid in excess of the contract, they will contact the vendor to determine why. If the vendor will not agree to reduce the invoice, accounts payable will notify the purchasing department of the situation who will bring this to the attention of the school business administrator. If the school business administrator agrees that the contract should be increased and it is below the bid threshold, the school business administrator will increase purchase order and state the reason for doing so. If the original contract is above the threshold the school business administrator will bring a new contract for the board of education to approve. When everything matches, the accounts payable department will list for payment the invoice presented.

7. Partial payments will be made in accordance with the contract and may be made if there is a partial shipment of textbooks, supplies or materials to the district. In order for a non contractual partial payment to be considered, the vendor must delineate on the invoice specifically what is requesting payment for, what items are backordered and when they can be delivered and what items are no longer available. If the user of the product agrees that it can wait for additional deliveries or it does not need the balance of the order for items no longer available, (s)he will state this on the receiver's verification and a partial payment will be processed. If the intended user does not agree, the partial shipment will be returned by the intended user to the vendor and the purchase order will be cancelled.
8. The receiver will certify to the accounts payable office when remaining items are received. This will be matched with the invoice of the vendor when payment is processed.
9. If the additional items are not received by the estimated delivery date, the accounts payable will contact the intended user to determine if the item is still needed. The intended user will certify that it is still needed by a new date or instruct the accounts payable department to cancel the purchase order. The accounts payable department will notify the vendor in writing that the balance of the purchase order is being cancelled.
10. The business administrator/board secretary or the comptroller, if approved by a resolution of the board of education, will examine, audit, and certify the claim prior to any checks being issued.
11. A payment or bill list will be presented to the board of education for approval. When approved, checks will be printed and mailed the next working day after board of education approval.

ATTACHMENT 2

SECTION VI – PURCHASING

CAMDEN CITY SCHOOL DISTRICT
CAMDEN, NEW JERSEY

Title: Purchasing Procedures

Sub-Title: Authority to Purchase, Bidding and Quotations

Authority to Purchase:

According to New Jersey Statute 18A:18A-2(b), the Purchasing Agent is the only individual in the school district that has the authority to make purchases for the Board of Education.

Authorized Purchases

All requests for the purchase of goods and /or services must be made through an approved purchase order signed by the School Business Administrator. No goods or materials may be ordered or work/service be authorized to begin by any other individual in the school district other than the School Business Administrator or designee.

Unauthorized Purchases

Any Board of Education employee who orders and/or receives any materials, supplies or services without going through the approved purchase order process has made an unauthorized purchase that may be subject to disciplinary action.

Procedure:

1. **QUOTATIONS:** When a single item or service, or group of like items cost between **\$5,400** and **\$35,999**, a minimum of **two quotations are required**. Notification of this range will be sent throughout the district by July 1 of each year. A **Quotation Record Form** is used for verbal quotes and attached to the Purchase Order or attach the written quote received to the submission to the Business Office.
2. **BIDDING PROCESS:** When a single item or service of a group of like items are at **\$36,000** or greater, the formal bidding process through the Business Office is required (July 1, the threshold amount will be sent to the schools/departments). Building Principals or Program Supervisors are responsible for providing the Business Office with detailed specifications and a list of vendors (if requested) for each item or service being purchased. This legal process takes approximately four to eight weeks from the date the Business Office receives the request and specifications. After award of the bid by the Board of Education the Business Administrator will notify the appropriate party of the award and the person requesting will submit a purchase order.

3. If the vendor has a State Contract Number, no quotes or bids are necessary, however the State Contract Number must appear on the purchase order. State contracts will be used only when it is in the best interest of the board of education.
4. If the purchase is made through an authorized Cooperative agreement no quotes or bids are necessary, but the cooperative information must appear on the purchase order.
5. **OTHER ITEMS:** The purchase of any single item or service not falling into one of the above categories must be processed on a purchase order which will be approved by the School Business Administrator prior to the purchase. This means **there will be no purchase orders authorized by a telephone, fax or email, etc. by a Principal, Supervisor, Teacher or other staff member.** Board members/staff members attending conventions or workshops are not authorized to make purchases in the name of the school district without following the purchasing process. All purchases of goods and services require a purchase order to be generated with approval from the School Business Administrator.
6. **Preview of Materials:** All staff members must receive permission from Principals or Supervisors **to preview materials.** After the preview process has been completed, the item must be returned. If there is a desire to purchase the previewed item, then a purchase order must be originated for a new item. All purchases must go through the Business Office.
7. **Reimbursements of employees:** The Board of Education recognizes an employee reimbursement purchase order when it pertains to pre-approved travel, meal and conferences. The Board will not reimburse employees for items and goods over \$50 personally purchased by the employee as these items are required to be purchased through a vendor through the purchase order system.
8. **Student Activity Accounts:** Purchases made through Student Activity Accounts may not be reimbursed with Board funds. Purchase orders made payable to the Student Activity Accounts for the aforementioned purpose will not be signed by the Purchasing Agent.

Cost Analysis: The grant accountant with the assistance of the purchasing agent will perform a cost or price analysis in connection with every procurement action using federal funds including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, an independent estimate must be prepared before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or

based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

Competitive Contracting Competitive contracting may be used by the board of education in lieu of public bidding for procurement of specialized goods and services the price of which exceeds the bid threshold, for the following:

- a. The purchase or licensing of proprietary computer software designed for board purposes, which may include hardware intended for use with the proprietary software. It shall not be utilized for the purpose of acquiring general purpose computer hardware or software;
- b. The hiring of a for-profit or a not-for-profit entity incorporated under Title 15A for:
 - (1) operation, management or admin of recreation or social service facilities or programs; or
 - (2) the operation, management or administration of data processing services
- c. Services performed by an energy services co., including the design, measurement, financing and maintenance of energy saving equip or renovations, that result in payment derived, in whole or in part, from sale of verified energy savings over the term of an agreement with a public utility or subsidiary, but not the provision or performance of physical improvements that result in energy savings, provided such savings are calculated pursuant to guidelines of the BPU and provided the LFB, in consultation with the State Board, shall find the terms and conditions of any financing agreement are reasonable;
- d. Telecoms transmits or switching services not part of a tariff or schedule of charges filed with BPU;
- e. The purchase of specialized machinery or equipment of a technical nature, or servicing thereof, which will not reasonably permit the drawing of specs;
- f. Food services provided by food service management companies when not administered by NJDA, BCNP;
- g. Driver education courses provided by licensed driver education schools;
- h. At board option, any good or service exempt from bidding pursuant to NJS18A:18A-5;
- i. Laboratory testing services;
- j. Concessions;
- k. The operation, management or administration of other services, with the approval of the Division of Local Government Services in the Department of Community Affairs; any purpose included herein shall not be considered an extraordinary unspecifiable services contract.
- l. School and district improvement services geared toward improving student performance by providing services to school employees. School and district improvement services include but are not limited to, leadership training, professional development, organizational evaluations and personnel evaluation training. Other examples include training in supplemental reading instructional services, year-long training/coaching in math or language arts instruction, and providing consulting and professional development in school and district leadership.

Unless an exception is provided under NJS 18A:18A-42 permitting a longer term, contracts awarded pursuant 18A:18A-4.5 may not exceed 5 yrs.

Competitive contracting to be initiated by board resolution; process administration

- a. To initiate competitive contracting, the board shall pass a resolution authorizing its use each time specialized goods or services in 18A:18A-4.1 are to be contracted. If the goods or services

have been contracted for previously using competitive contracting then the original board resolution shall suffice.

b. Competitive contracting shall be administered by a qualified purchasing agent, legal counsel, or SBA. Any contracts awarded shall be made by board resolution subject to 18A:18A-4.5.

RFPs; documentation; provisions The competitive contracting process shall utilize a RFP in accordance with the following:

a. The purchasing agent, counsel or SBA shall prepare a RFP, which shall include: all requirements deemed appropriate and necessary to allow for full and free competition; info necessary for vendors to submit a proposal; and a method by which the board will evaluate and rank proposals received.

b. The methodology for awarding of competitive contracts shall be based on an evaluation and ranking, which shall include technical, mgt, and cost criteria, and may include a weighting of criteria, all developed in a way that is intended to meet the specific needs of the contracting unit, and where such criteria shall not unfairly or illegally discriminate against or exclude otherwise capable vendors. When an evaluation method uses a weighting of criteria, at the option of the board the weighting to be accorded to each criterion may be disclosed to vendors prior to receipt of proposals. The methodology shall comply with such rules as the DLGS in DCA, in consultation with the Commissioner, may adopt pursuant to the "APA."

c. At no time during the solicitation process shall the agent, counsel or SBA convey info, including price, to a potential vendor which could confer an unfair advantage over another vendor. If an agent, counsel or SBA desires to change proposal docs, he shall notify only potential vendors who received the docs of any and all changes in writing and all existing docs shall be changed appropriately.

d. All proposals and contracts shall be subject to 52:25-24.2 requiring submission of a statement of corp. ownership and provisions of 10:5-31 et seq. concerning EEO and affirmative action.

Competitive contracting proposal solicitation

Competitive contracting proposals shall be solicited in the following manner:

a. A notice of RFP shall be published in an official paper at least 20 days prior to the submission date. The board shall promptly reply to a request by a vendor by providing a copy of the RFP. The board may charge a fee that shall not exceed the greater of \$50 or the cost of providing the RFP.

b. Each interested vendor shall submit a proposal which shall include all info required by the RFP. Failure to meet RFP specs may result in the board disqualifying the vendor from consideration. Under no circumstances shall the provisions of a proposal be subject to negotiation by the board.

c. If the board, at the time of solicitation, utilizes its own employees to provide the goods or services, or both considered for competitive contracting, the board shall, at any time prior to, but no later than the time of solicitation, notify affected employees of its intention to solicit proposals. Employees or their reps shall be permitted to submit recommendations and proposals affecting wages, hrs, and terms and conditions of employment in a manner to meet the goals of the competitive contract. If employees are represented by an org that has negotiated a contract with the board, only the bargaining unit shall be authorized to submit such recommendations or proposals. When requested by employees, the board shall provide info regarding budgets and costs of performing the services by such employees as available. Nothing shall prevent employees from making recommendations that may include modifications to existing labor agreements to reduce

costs in lieu of a competitive contract award, and agreements implementing such recommendations may be considered as cause for rejecting proposals.

d. The agent, counsel or SBA shall evaluate proposals only in accord with the method described in the RFP. After proposals have been evaluated, the agent, counsel or SBA shall prepare a report evaluating and recommending the award of a contract(s). The report shall list the names of all potential vendors who submitted a proposal and shall summarize each. The report shall rank vendors in order of evaluation scoring, shall recommend the selection of a vendor(s), as appropriate, for a contract, shall be clear in the reasons why the vendor(s) have been selected among others considered, and shall detail the terms, conditions, scope of services, fees, and other matters to be in the contract. The report shall be available to the public at least 48 hrs prior to award, or when made available to the board, whichever is sooner. The board shall have the right to reject all proposals for any reason in 18A:18A-22.

e. Award of a contract shall be made by resolution within 60 days of receipt of proposals, except when a vendor consents, at the board's request, it may be held for consideration for a longer period.

f. The report prepared pursuant to subsection d. shall become part of the public record and shall reflect the final action of the board. Contracts shall be executed pursuant to NJS 18A:18A-40.

g. The board secretary shall publish a notice in the official paper summarizing the contract award, which shall include but not be limited to, the nature, duration, and amt, vendor name and a statement that the resolution and contract are on file and for public inspection in the office of the secretary.

Competitive Contracting for Federal Programs

The following competitive contracting procedures will be followed for federal programs when they are more stringent than state requirements:

(3) *Procurement by competitive proposals.* The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and sub-grantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(v) Grantees and sub-grantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

Disbarment Lists

Prior to adding any new vendor to the district's vendor list, the purchasing agent will check the Excluded Parties List System at www.epls.gov. A vendor shall not be added to the district's vendor list that is on the Excluded Parties List System.

LEGAL REFERENCE: Bidding and competitive contracting requirements N.J.S.A. 18A:18A 3 to 4.1, quotation requirements N.J.S.A. 18A:18A-37

34 C.F.R. 80.36 (f) (1)