

STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION

PATERSON INTERNAL AUDIT UNIT

MICHAEL'S ENERGY FACTORY

2010-2011 FISCAL YEAR

APRIL 2012

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON INTERNAL AUDIT UNIT
MICHAEL'S ENERGY FACTORY
2010-2011 FISCAL YEAR**

Distribution List of Final Audit Report

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Paterson Public Schools**

**NEW JERSEY DEPARTMENT OF EDUCATION
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EXECUTIVE SUMMARY

The Paterson Internal Audit Unit conducted an audit of Michael's Energy Factory, a provider participating in the New Jersey Department of Education (NJDOE) Preschool Education Program, for compliance with the terms of the contract for the 2010-2011 fiscal year.

As a result of the audit, the following deficiencies were noted:

- The provider did not follow the approved budget. As a result, the provider owes the district a balance of \$233,237.79.
- The auditors noted accounting errors.
- The auditors found evidence of late payments and late fees.
- Deficiency noted in the review of required staff credentials.

DETAILED FINDINGS

The Paterson Internal Audit Unit reviewed the financial records and supporting documentation in accordance with the executed contract for Michael's Energy Factory for the period September 2010 through June 2011. During this period, funds were allocated based on a presumptive budget submitted by the provider and approved by the district. The NJDOE budget should reflect actual costs based on a six hour and 55 minute day and 185 day school year.

The audit scope included detailed testing to determine whether or not:

- The daycare center had a current license.
- The NJDOE employees had criminal history record information (CHRI) results, child abuse record information (CARI) results, Mantoux Tuberculosis (TB) test results, and applicable credentials on file. The contract requires the provider to provide proof to the district, prior to the commencement of the program, that each individual employed by the contracted childcare center has had a criminal history background check and that said check indicates that no criminal history record information exists on file in either the Identification Division of the Federal Bureau of Investigation or the State Bureau of Identification, which would disqualify said employee from employment pursuant to law, or that the check reveals a disqualifying offense and the individual has demonstrated rehabilitation.
- The provider properly filed federal and state tax returns.
- The provider maintained a financial system that provides timely, accurate, current and complete disclosure of all financial activities related to the NJDOE agreement.
- The provider properly handled cash receipts and disbursements; and completed year-end bank reconciliation for each account handling NJDOE funding.
- The provider maintained the proper insurance as required by the contract.

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- The provider submitted the proper supporting documentation with the quarterly expenditure reports.

Below is a summary of our findings:

MICHAEL'S ENERGY FACTORY:

Michael's Energy Factory is a non-profit childcare center providing services to the children of Paterson, New Jersey. The center is located at 101 Oliver Street in Paterson and was budgeted to serve a total of 195 NJDOE children. The 2010-2011 approved budget totaled \$2,397,195.

1. NJDOE Preschool Program.

The NJDOE funds the six hour and 55 minute educational component of the preschool program and the Department of Human Services (DHS) funds the wraparound component.

The Statement of Assurance signed by the Director of the childcare center certifies that the expenditure report is accurate and complete with all supporting documentation. The provider shall submit all supporting documentation including receipts for all expenditures related to the NJDOE with each quarterly expenditure report. The District Department of Early Childhood Education (District) shall, based on their review of the quarterly expenditure reports, make prorated adjustments to subsequent monthly payments through the duration of the NJDOE contract.

Based on the results of this audit, the provider under spent the approved budget by \$233,237.79 (see exhibit A).

Recommendation:

The auditors recommend that the district recovers \$233,237.79 from this provider.

2. The auditors noted accounting errors.

The auditors noted the following accounting errors:

- The general ledger and expenditure report contains postings of expenses that are unrelated to the 2010-2011 NJDOE contract year. The auditors disallowed expenses totaling \$4,352.65.
- Expenses totaling \$8,424.50 were incorrectly charged in the general ledger and expenditure report. These expenses belong to other programs operated by the provider and not the NJDOE Preschool Program.

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- Budgeted accounting fees were allocated evenly (one-tenth of the budget amount every month) by the provider but they could not identify specific expenses to support the amount. The auditors allowed a percentage of the external audit fee.

Recommendation:

The auditors recommend that the provider enhances its current financial management system in order to provide an accurate and complete disclosure of all financial activities. The provider should only charge allowable educational program costs to the NJDOE. All NJDOE allowable expenses should be charged correctly and supported by expenses that can be verified by the auditors. In the future, the provider must comply with the terms of the contract by submitting accurate quarterly expenditure reports with properly allocated expenses. The auditors also recommend that the District review the expenditure reports on a timely basis and make necessary adjustments.

3. The auditors found evidence of late payments and late fees.

The auditors found evidence of late payments and late fees:

- The auditors noted payments to Horizon Blue Cross Blue Shield for medical and prescription benefits were in arrears. The payments were roughly two months behind. A past due notice was sent to the provider on June 24th 2011. As of January 2012 the provider has switched vendors.
- The auditors disallowed late fees totaling \$792.79 which were allocated to the NJDOE by the provider.

Recommendation:

The auditors recommend that the provider establishes sound fiscal controls aimed at ensuring that NJDOE funding is managed appropriately and vendor payments are disbursed timely. The provider should only charge allowable administrative and indirect costs to NJDOE as per the expenditure guidance. Late fees should not be charged to the NJDOE. If any of these expenses are charged to NJDOE in the current year they should be reclassified and charged to other funding.

4. Deficiency noted in the review of required staff credentials.

In accordance with the 2010-2011 NJDOE Preschool contract, providers must obtain the appropriate credential documentation, a CARI background check and a CHRI fingerprint background check for all staff members who will be working at the center on a regularly scheduled basis in order to secure a new or renewal license. Staff members whose duties require contact with children for at least 20% of the center's weekly operating hours shall take a Mantoux Tuberculin skin test.

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The auditors reviewed the personnel files for 50 NJDOE employees employed by Michael's Energy Factory during the audit period of July 2010 to June 2011, and found the following deficiency:

- Health benefits waiver and proof of other insurance was not on file for one teacher assistant who was terminated August 30, 2011.

In addition to the deficiency noted above, the auditors observed that the provider's personnel files were improperly maintained. The files were unorganized and there were multiple files for the same employee.


Recommendation:

The auditors recommend that the District ensures that all required documentation is on file. The auditors also recommend that the provider review personnel files for all NJDOE employees and ensure that all documentation is filed properly and consistently.

Auditors:


**Rashmi Rawtani
Patricia Sewak**

Submitted by:



**Daniel Sackner
Supervising Auditor**

Approved by:



**Steven Hoffmann
Coordinating Auditor**

Michael's Energy Factory
01/02/2011 Fiscal Year

Budget vs. Actual

	YTD TOTAL PER PROVIDER REPORT	BUDGET TRANSFER	BUDGET MINUS YTD PER PROVIDER	AMOUNT DUE BACK FROM PROVIDER	YTD TOTAL PER AUDITORS	BUDGET MINUS YTD PER AUDITORS	VARIANCE - AMOUNT DUE BACK
EDUCATIONAL PROGRAM COSTS							
Teacher Salary	\$448,218		\$1,769.00	\$1,769.00	\$644,703.57	\$3,514.43	\$3,514.43
Teacher Assistant Salary	\$360,758		\$12,817.00	\$12,817.00	\$347,882.33	\$12,875.67	\$12,875.67
Teaching Assistant Salary	\$57,482		\$5,618.17	\$5,618.17	\$49,931.45	\$7,550.72	\$7,550.72
Teacher/Assistant Teacher Benefits	\$252,006		\$57,225.09	\$57,225.09	\$196,566.60	\$53,440.49	\$53,440.49
Substitute Teacher Stipend	\$21,450		\$14,300.00	\$14,300.00	\$6,071.42	\$15,378.58	\$15,378.58
Substitute Assistant Teacher Stipend	\$17,063		\$7,124.50	\$7,124.50	\$9,712.50	\$7,350.00	\$7,350.00
Classroom Materials and Supplies	\$26,000		\$17,121.00	\$17,121.00	\$8,879.46	\$17,120.54	\$17,120.54
Classroom Technology	\$10,400		\$7,342.00	\$7,342.00	\$3,058.16	\$7,341.85	\$7,341.85
Field Trips w/ Transportation	\$14,825		\$5,341.00	\$5,341.00	\$9,284.13	\$5,340.87	\$5,340.87
Family Worker Salary	\$100,445		\$16,982.07	\$16,982.07	\$89,985.69	\$10,459.38	\$10,459.38
Family Worker Benefits	\$17,063		\$5,066.49	\$5,066.49	\$9,356.25	\$7,729.24	\$7,729.24
Food-Related Costs (CACFP participant, non-reimbursable costs)							
Food (for contracted preschool children only)	\$16,840		\$157,825.54		\$16,840.46	\$0.00	\$0.00
Food Worker Salary (cook)	\$17,865		\$2,264.70	\$0.00	\$17,865.30	\$0.00	\$0.00
Food Worker Benefits (cook)	\$902		\$874.33	\$874.33	\$27.60	\$874.73	\$874.73
Assistant Food Worker Salary (asst. cook)	\$22,908		\$2,828.66	\$2,828.66	\$21,092.47	\$1,815.19	\$1,815.19
Assistant Food Worker Benefits (asst. cook)	\$4,990		\$309.39	\$309.39	\$4,899.61	\$0.00	\$0.00
Employer Payroll Taxes (For Educational Program Positions only)							
Social Security (6.20%)	\$77,264		\$5,973.70	\$5,973.70	\$69,873.30	\$7,390.39	\$7,390.39
Medicare (1.45%)	\$19,070		\$1,396.74	\$1,396.74	\$16,341.34	\$1,728.40	\$1,728.40
Unemployment (2.80%)	\$34,893		\$2,697.28	\$2,697.28	\$34,893.28	\$0.00	\$0.00
Disability (0.50%)	\$6,231		\$481.94	\$481.94	\$5,376.90	\$655.04	\$655.04
TOTAL EDUCATIONAL PROGRAM COSTS	\$1,725,486		\$4,590.33	\$168,088.96	\$1,664,729.32	\$160,766.52	\$160,766.52
ADMINISTRATIVE SUPPORT/INDIRECT COSTS							
UPPORT COSTS							
Director Salary	\$4,812		\$3,983.90	\$3,983.90	\$54,812.10	\$0.00	\$0.00
Director Benefits	\$6,750		\$1,637.01	\$1,637.01	\$5,294.27	\$1,465.74	\$1,465.74
Senior Salary	\$25,034		\$2,505.65	\$2,505.65	\$50,068.35	\$0.00	\$0.00
Senior Benefits	\$3,256		\$8,888.18	\$8,888.18	\$6,512.82	\$0.00	\$0.00
Assistant Salary	\$18,416		\$552.41	\$552.41	\$33,081.18	\$3,760.41	\$3,760.41
Assistant Benefits	\$6,829		\$3,445.14	\$3,445.14	\$13,657.14	\$0.00	\$0.00
Social Security (6.20%)	\$8,786		\$436.85	\$436.85	\$9,223.00	\$8,786.00	\$8,786.00
Medicare (1.45%)	\$2,055		\$102.18	\$102.18	\$1,926.39	\$129.44	\$129.44
Unemployment (2.80%)	\$3,968		\$197.06	\$197.06	\$3,967.94	\$0.00	\$0.00
Disability (0.50%)	\$709		\$35.44	\$35.44	\$665.32	\$53.24	\$53.24
DIRECT COSTS							
Rent, Mortgage, Other Space Costs	\$250,926		\$0.00	\$0.00	\$189,474.94	\$0.00	\$0.00
Office Equipment-\$2000 and Repair	\$8,000		\$1,603.18	\$1,603.18	\$6,040.82	\$0.00	\$0.00
Office Materials and Supplies	\$22,714		\$15,838.00	\$4,351.00	\$12,800.39	\$0.00	\$0.00
Food-Related Paper Supplies	\$10,000		\$7,551.00	\$1,394.00	\$6,167.02	\$0.00	\$0.00
Printing Supplies	\$29,900		\$22,578.00	\$4,120.00	\$18,457.55	\$0.00	\$0.00
Food for Meetings	\$1,200		\$293.00	\$453.00	\$181.73	\$291.40	\$291.40
Building/Grounds Maintenance/Repair	\$41,531		\$55,737.39	\$10,686.00	\$62,215.61	\$0.00	\$0.00
Utilities	\$55,000		\$21,746.06	\$21,746.06	\$42,244.94	\$0.00	\$0.00
Telecommunications Services	\$55,946		\$4,411.45	\$4,411.45	\$5,827.55	\$0.00	\$0.00
Security	\$10,532		\$3,375.03	\$3,375.03	\$7,962.87	\$0.00	\$0.00
Insurance	\$82,222		\$34,343.00	\$9,640.96	\$10,585.52	\$0.00	\$0.00
Accounting Fees	\$20,000		\$0.04	\$0.04	\$6,327.46	\$15,672.56	\$15,672.56
Payroll Preparation Fees	\$25,000		\$324.55	\$324.55	\$18,553.00	\$324.69	\$324.69
Advertising	\$1,000		\$36.10	\$36.10	\$339.60	\$38.31	\$38.31
Total of Above Administrative Support and Indirect Costs	\$1,000		\$377.00	\$106,359.98	\$16,316.89	\$25,966.77	\$25,966.77
Other Approved Budgeted Costs:	\$697,226		\$0.00	\$0.00	\$697,226.00	\$0.00	\$0.00

Michael's Energy Factory

2010/2011 Fiscal Year

Budget vs. Actual

	YTD TOTAL PER PROVIDER EXPENDITURE REPORT	BUDGET TRANSFER	BUDGET MINUS YTD PER PROVIDER	AMOUNT DUE BACK FROM PROVIDER	YTD TOTAL PER AUDITORS	BUDGET MINUS YTD PER AUDITORS	VARIANCE - AMOUNT DUE BACK
Additional teacher and assistants benefit funds (\$1,636 per person)	\$46,808		\$46,808.00	\$45,808.00	\$0.00	\$45,808.00	\$45,808.00
door air testing	\$7,500		\$7,500.00	\$0.00	\$7,500.00	\$0.00	\$0.00
VAC replacement	\$7,500		\$7,500.00	\$0.00	\$7,500.00	\$0.00	\$0.00
SUBTOTAL Other Approved Budgeted Costs	\$60,808		\$60,808.00	\$510.00	\$6,990.00	\$510.00	\$510.00
PROVIDER REPORT TOTALS	\$2,456,214.00		\$2,456,214.00				
Total Cost	\$2,395,406		\$2,395,406.00				
Per-Pupil Cost	\$12,278		\$12,278.00				
entire Curriculum.net	\$2,915		\$2,915.00				
Professional learning Community teacher stipends (3 teachers @ \$25 per hour for 10 hours)	\$750		\$750.00	\$187.00	\$563.00	\$187.00	\$187.50
Total Cost Less District Adjustments	\$2,397,195		\$2,397,195.00	\$187.00	\$562.50	\$187.50	\$187.50
Per-Pupil Cost Less District Adjustments	\$12,283		\$12,283.00				
TOTAL	\$2,456,214.00	\$0.00	-\$59,019.37	\$226,910.85	\$2,163,956.84	\$233,237.79	\$233,237.79

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

CAP# _____

NAME OF SCHOOL DISTRICT PATERSON PUBLIC SCHOOL DISTRICT COUNTY: PASSAIC

TYPE OF EXAMINATION: Abbott Early Childhood Education Program
Office of Fiscal Accountability and Compliance (OFAC)
Report of Examination - (Dated) _____ OFAC Case # _____

DATE OF BOARD MEETING: June 20, 2012

PROVIDER CONTACT INFORMATION: Name of PROVIDER Michael's Energy Factory
NAME OF DIRECTOR Mr. Thomas Zsiga
Address of Provider: 101 Oliver Street, Paterson, NJ 07501

TELEPHONE NUMBER: 973-684-2278 FAX NUMBER _____

FINDING/ RECOMMENDATION NUMBER	FINDING	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTAT ION
1	NJ DOE Preschool Program.	The District will recover \$223,237.79 from the Provider.	Reduce the tuition payment to the provider.	Susana Peron	January 2013

Dan W. Egan
Chief School Administrator

Thomas Zsiga
Fiscal Specialist

6/21/12 Date
6/21/12 Date

James E. Zsiga Provider
Board Secretary/Business Administrator

6/29/2012 Date
5/10/12 Date

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FINDING/ RECOMMENDATION NUMBER	FINDING	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
2	The auditors noted some accounting errors.	The District will direct the Provider to implement fiscal controls that will eliminate accounting errors.	Continue to review the general ledger and the expenditure report to ensure that accounting controls are in place.	Susana Peron	June 2012

Dan W. Zura
Chief School Administrator

Tom Schelling
Fiscal Specialist

6/21/12
Date

5-17-2012
Date

[Signature]
Board Secretary/Business Administrator

[Signature]
Provider

6/20/2012
Date

5/17/12
Date

**NEW JERSEY DEPARTMENT OF EDUCATION
OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE
EARLY CHILDHOOD EDUCATION LIMITED REVIEW RESPONSE
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Report of Examination - (Dated) _____ OFAC Case # _____

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NAME OF DIRECTOR Mr. Thomas Zsiga
Address of Provider: 101 Oliver Street, Paterson, NJ 07501

TELEPHONE NUMBER: 973-684-2278 FAX NUMBER _____

FINDING/ RECOMMENDATION NUMBER	FINDING	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
3	The auditors saw some evidence of late payments.	The District will request that invoices be paid on a timely basis.	The district will continue to review the expenditure report to ensure that fiscal controls are in place.	Susana Peron	June 2012

Alan W. Zeman Chief School Administrator Date 6/21/12
Tom Schobing Fiscal Specialist Date 5-17-2012
W. Oyala Board Secretary/Business Administrator Date 6/29/12
Thomas Zsiga Provider Date 5/17/12

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

CAP# _____

NAME OF SCHOOL DISTRICT PATERSON PUBLIC SCHOOL DISTRICT COUNTY: PASSAIC

TYPE OF EXAMINATION: Abbott Early Childhood Education Program
Office of Fiscal Accountability and Compliance (OFAC)
Report of Examination - (Dated) _____ OFAC Case # _____

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PROVIDER CONTACT INFORMATION: Name of PROVIDER Michael's Energy Factory
 NAME OF DIRECTOR Mr. Thomas Zsiga
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TELEPHONE NUMBER: 973-684-2278 FAX NUMBER _____

FINDING/ RECOMMENDATION NUMBER	FINDING	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTAT ION
4	One deficiency noted in the review of required staff credentials.	The District will continue to do site visits and documentation reviews to ensure all required documentation is on file.	Continue site visits and documentation reviews.	Susana Peron	June 2012

Dan W. Egan Chief School Administrator
Li Scholting Fiscal Specialist
W. J. ... Board Secretary/Business Administrator
... Provider
 Date: 6/21/12 Date: 5/10/12
 Date: 5-17-2012 Date: _____