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

FINAL AUDIT REPORT

ED-OIG/A02J0002
June 2011

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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

June 6, 2011

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/A02J0002, entitled "Camden City Public School District's Administration of 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 officials, who will consider them before taking final Departmental action on this audit:

Thelma Meléndez de Santa Ana, Ph.D.
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U.S. Department of Education
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Washington, DC 20202

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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 P. Schultz
Regional Inspector General for Audit

Enclosure

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ABBREVIATIONS, ACRONYMS AND SHORT FORMS USED IN THIS REPORT

34 C.F.R.	Title 34 of the Code of Federal Regulations
ARRA	American Recovery and Reinvestment Act of 2009
Board	Board of Education
CAFR	Comprehensive Annual Financial Report
Camden	Camden City Public School District
CCESC	Camden County Educational Services Commission
CY	Calendar Year
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
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
SOP	Standard Operating Procedure
SY	School Year
Title I	Title I, Part A (Improving Basic Programs Operated by Local Education Agencies)

EXECUTIVE SUMMARY

The objective of our audit was to determine whether the Camden City Public School District's (Camden) contract related 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 July 1, 2005, through June 30, 2009.

To accomplish our objective, we reviewed Camden's contracts that were paid with ESEA funds and the process it used to procure goods and services. We reviewed 50 contracts totaling $11,749,080 in expenditures funded with ESEA funds during our audit period. We determined that some of the contract related expenditures were not allowable and were not spent in accordance with applicable laws and regulations for our audit period. Camden had an inadequate contract administration system, had questioned and unsupported expenditures, did not comply with Federal requirements when procuring goods and services, and had internal control weaknesses in its accounting for procured goods and services.

Specifically, Camden did not have a system to maintain and track contracts and, therefore, could not provide a universe of contracts funded with ESEA funds. Camden could not support $4,526,936 for contracts that were missing or improperly executed and had inadequate documentation to support expenditures of $1,039,661 for some of these contracts. In addition, Camden had inadequate documentation to support expenditures of $3,007,489 for properly executed contracts. Camden also did not perform cost or price analysis for competitive and noncompetitive contracts, did not comply with Federal requirements for competitive or sealed bids, and did not comply with State statutes. In addition, Camden misallocated $79,260 in expenditures for Individuals with Disabilities Education Act of 2004 (IDEA) services to the Title I, Part A program (Title I) and $58,519 in expenditures for Title I services to IDEA.

We recommend that the Assistant Secretary for Elementary and Secondary Education require the New Jersey Department of Education (NJDOE) to direct Camden to:

- develop and implement a contract administration system to properly track the administration of contracts;
- provide support to show that contracts were properly executed; and
- provide adequate supporting documentation for unsupported ESEA expenditures.

NJDOE should also require that Camden develop and implement controls over maintaining documentation that will support its compliance with Federal procurement requirements. NJDOE needs to monitor Camden to ensure it manages its ESEA funds in compliance with laws, regulations, and the provisions of contracts and grant agreements. In addition, we recommend that the Assistant Secretary for Elementary and Secondary Education in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services require NJDOE to work with Camden to ensure proper allocation of expenditures and proper disbursement of and accounting for Federal funds in Camden's accounting system.

We provided a draft of this report to NJDOE. We reviewed NJDOE's response, dated April 1, 2011, and revised Finding No. 2 based on additional documentation received. In its response, NJDOE neither agreed nor disagreed with our findings; however, NJDOE concurred with 12 of the 15 recommendations. NJDOE stated that the State Monitor worked with Camden officials to locate the missing contracts and that a number of the contracts were enclosed with its comments. NJDOE further stated that Camden officials would provide supporting documentation for contracts that lacked such documentation, as stated in Finding No. 2. Camden was able to locate two of the missing contracts, a properly executed contract, and additional supporting documentation for two contracts.

NJDOE also stated that Camden developed and planned to implement standard operating procedures (SOP) over contract administration, payments of goods and services, and procurement requirements. If implemented correctly, the planned SOPs would establish a database to track contracts, maintain proper documentation to support contract expenditures and prevent overpayment of contracts, establish a system that properly identifies purchase orders (POs) for payment and maintains proper documentation to support expenditures. However, some of the SOPs did not specifically describe how the database would interface with Camden's existing financial system to ensure overpayments were prevented, which documents would be retained to support expenditures, or which accounting controls would be implemented to prevent duplicated encumbrances. Therefore, the SOPs would not be sufficient to fully address Recommendations 1.1, 1.3, 2.4, and 4.3.

We have summarized NJDOE's comments and our response after each finding. A copy of NJDOE's comments is included as Enclosure 4. However, because of the volume of the attachments included with NJDOE's comments, we have not included them in this enclosure. A complete copy of NJDOE's comments with all attachments is available upon request and will be forwarded, under separate cover, to the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services.

BACKGROUND

Camden was awarded $88,468,141 in ESEA subgrants for the September 1, 2005, through August 31, 2009, school years (SYs). During our audit period, which covered July 1, 2005, through June 30, 2009, Camden expended $11,749,080 of its ESEA funds for contract related goods and services.[1] Camden operated 29 to 30 schools and had an average annual student enrollment of more than 14,000 students. For SYs 2005-2006 and 2007-2008, 28 schools operated as school-wide schools and 29 schools operated as school-wide schools for SYs 2006-2007 and 2008-2009.[2] (See Table below)

Table: Camden School and Enrollment Data

School Year	Total Schools	School-wide Schools	Enrollment
2005-2006	30	28	14,905
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 July 1, 2005, through June 30, 2006, we became aware of numerous deficiencies regarding Camden's administration of the U.S. Department of Education (Department) funds.[3] Although Camden recently implemented changes to address issues in the district, the numerous deficiencies found during the review warranted additional audit work to ensure that the actions implemented protect Federal subgrants from the risk of misuse. There also was a significant increase in Federal funding through the American Recovery and Reinvestment Act of 2009 (ARRA), which could be at risk of misuse. For the period July 1, 2009, through June 30, 2010, Camden received $49,038,760 in ARRA funds, which included $38,485,861 in State Fiscal Stabilization Fund grant funds, $6,397,060 in Title I ARRA funds, and $4,155,839 million in IDEA ARRA awards.

During our review, we obtained an understanding of internal controls and policies and procedures related to Camden's procurement process. The Purchasing Department, which operated under the Business Office, was responsible for procuring goods and services through a bidding process. Camden's certified purchasing agent was authorized to approve contracts for purchases of goods and services up to the State's threshold of $29,000. If the contract cost was more than $29,000, then, barring exceptions, the purchasing agent issued a request for proposals to solicit proposals from qualified vendors. The Camden Board of Education (Board) selected a committee to review the proposals. The committee selected the vendor and the Board approved

[1] NJDOE awarded ESEA subgrants for September 1 through August 31. However, for reporting purposes, we reviewed expenditures for Camden's fiscal year (FY) July 1 through June 30, as reported in Camden's Comprehensive Annual Financial Report (CAFR).
[2] School-wide schools are those with State approved comprehensive plans that allowed schools to blend their Federal, State, and local funds to upgrade the entire educational program of a school serving eligible children.
[3] The review was performed from November 14, 2007, through March 20, 2008. We resumed the audit work on November 10, 2008.

through resolution the selected vendor before the goods and services were procured. This same procurement process was followed by Camden during our audit period.

Camden used its financial accounting system to create POs and pay vendors. The payments were processed by the accounts payable department upon approval from a Business Office official. Camden used accounting codes to identify the funding source and other account information related to the purchase. Each PO was assigned an accounting code when the PO was created, which identified federally funded expenditures.

AUDIT RESULTS

We determined that some of Camden's contract related expenditures funded through the ESEA were not allowable and spent in accordance with applicable laws and regulations for the audit period July 1, 2005, through June 30, 2009. We found that Camden did not have a contract administration system that adequately maintained and tracked contracts. As a result, Camden could not provide a universe of contracts expended with ESEA funds and overpaid contracted vendors. Camden could not support $4,526,936 for contracts that were missing or improperly executed. In addition, Camden had inadequate documentation to support expenditures of $1,039,661 for some of those missing or improperly executed contracts and $3,007,489 for properly executed contracts. Camden also did not comply with applicable Federal requirements when procuring goods and services. Specifically, Camden did not perform any cost or price analysis for competitive and noncompetitive contracts and did not maintain sufficient documentation to support its competitive procurement process. Further, Camden's rationale for awarding noncompetitive contracts did not comply with State statutes, and contracted vendors provided services before the Board approved them or before Camden signed the contract. We also found that Camden did not date all signed contracts. Lastly, we found that Camden lacked internal controls in its accounting for procured goods and services, which resulted in misallocated expenditures, duplicated budgets, and duplicated encumbrances.

FINDING NO. 1 – Camden Had an Inadequate Contract Administration System

Camden did not have an adequate contract administration system. Camden used a manual process for procuring contracted goods and services that did not ensure supporting contract information was adequately documented, maintained, and tracked. As a result, Camden could not provide a universe of contracts funded with ESEA funds and overpaid contracted vendors $11,453.

Camden Could Not Provide a Universe of Contracts Funded with ESEA Funds

Camden did not have a contract administration system that adequately maintained and tracked contracts. We requested a list of all contracts that had been funded with ESEA funds during the course of our audit period. Camden's purchasing agent provided a list of 17 contracts funded with ESEA funds for the period July 1, 2005, through June 30, 2008. The list was based partially on the purchasing agent's memory. We concluded that the purchasing agent's list was incomplete because we found contracts through Board resolutions and contract files that were not included on the list.[4] When we expanded our scope to the period July 1, 2008, through June 30, 2009, the purchasing agent provided an Excel spreadsheet that he had maintained for 301 Board resolutions. The Excel spreadsheet of resolutions was insufficient because it did not provide details regarding which resolutions were for contracted goods and services and did not indicate the source of funding used. Because Camden could not provide a complete and reliable universe of contracts funded with ESEA funds for the period July 1, 2005, through June 30, 2009, we developed and performed alternative procedures to determine the universe of

[4] Board resolutions documented the approval of contracts and various other district matters.

contracts. Based on the alternative procedures, we determined that Camden awarded 88 contracts, with a total value of $14,899,894, funded with ESEA funds during the period July 1, 2005, through June 30, 2009. Of the 88 contracts, we reviewed all 50 contracts that were awarded for amounts above New Jersey's bid threshold of $29,000. The remaining 38 contracts, which were under the bid threshold and awarded directly by Camden's certified purchasing agent, were not reviewed.

According to Title 34 of the Code of Federal Regulations (34 C.F.R.) § 80.36 (b)(2), "[g]rantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."[5]

Camden's contract administration system was inadequate because Camden could not provide a universe of contracts funded with ESEA funds during our audit period. Although we performed alternative procedures to determine the universe of contracts funded with ESEA funds, there is no assurance that the 88 contracts we found constituted a complete universe. Without an adequate contract administration system, there is no assurance that all goods and services were provided to Camden in accordance with the contract terms, conditions, and specifications.

Camden Overpaid for Contracted Services

For 6 of the 50 ESEA funded contracts we reviewed during our audit, Camden overpaid the contracted vendors $30,534, of which $11,453 was allocable to ESEA.[6] Specifically, we found that:

- For the period July 1, 2008, through June 30, 2009, Camden's Board approved a contract for a vendor to provide uniforms and accessories for the food services, maintenance, and security departments for an amount not to exceed $84,995. Camden expended $104,458 for this contract representing an overpayment of $19,463 to the vendor.
- For the period July 1, 2007, through June 30, 2008, Camden's Board approved a contract for a vendor to provide temporary staff at a rate of $14.25 per hour. However, we found that Camden paid a rate of $18.85 per hour, and for one day, Camden paid $28.28 per hour for overtime. This resulted in an overpayment of $7,285 to the vendor.
- For the period July 1, 2005, through June 30, 2006, Camden contracted with a university to provide two certification classes for its bilingual teachers. Camden paid the vendor $35,259 for 11 teachers to attend the first class and 12 teachers to attend the second class. According to the documentation we reviewed, only 10 teachers attended the first class and 11 teachers attended the second class. Therefore, Camden overpaid the vendor $3,066 for two teachers that were not enrolled in nor attended class.
- For the period July 1, 2005, through June 30, 2006, Camden contracted with a vendor to provide writing workshops to Camden's 4th grade students at an amount not to exceed $34,650. The vendor submitted its invoice for services rendered in the amount of $34,200. Camden paid the vendor $34,650, which was $450 over the amount the vendor invoiced.
- Camden's Board approved a contract with a vendor to provide professional development,

[5] We applied the applicable regulatory citation for each fiscal year of our audit period.
[6] $11,369 of this amount was included in the $4.58 million of unsupported expenditures noted in Finding No. 2.

training, and technical support at a cost not to exceed $297,300 during the period July 1, 2005, through June 30, 2006. The vendor submitted invoices and Camden paid the vendor $297,500, an overpayment of $200.

- Camden's Board approved a contract with a vendor to provide training and teacher mentoring at a cost not to exceed $69,000 during the period July 1, 2005, through June 30, 2006. The vendor submitted invoices and Camden paid the vendor $69,070, an overpayment of $70.

According to the Office of Management and Budget (OMB) Circular A-133 §___. 300(b), 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."

Camden did not have adequate controls in its accounting system to ensure that payments were properly made to contracted vendors. In addition, Camden's accounts payable officials were not aware of the contract details. Therefore, payments were processed based on invoices received from the vendors. Camden officials who had requested the contracts had certified the invoices for payment without verifying that the invoiced amount was correct. As a result, Camden overpaid contracted vendors $11,453 in ESEA funds.

RECOMMENDATIONS

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

1.1 Direct Camden to develop and implement a contract administration system that maintains sufficient details regarding the contracts awarded by funding source to properly maintain and track the administration of contracts, and mitigate overpayments to contracted vendors.

1.2 Direct Camden to return the $11,453 in unallowed ESEA funds, with applicable interest, to the Department.

1.3 Review the remaining 38 contracts funded with ESEA funds awarded in the amount below New Jersey's bid threshold of $29,000 to determine whether the contracts were properly executed, that the goods and services were provided, and the funds were expended in accordance with applicable laws and regulations.

NJDOE Comments

In its response to the draft report, NJDOE neither agreed nor disagreed with Finding No. 1 and agreed to take corrective actions in accordance with Recommendations 1.1, 1.2, and 1.3. NJDOE stated that Camden developed and planned to implement SOPs on contract administration and payments for goods and services for Recommendations 1.1 and 1.3. The planned SOPs stated that a database would be used to track detail on awarded contracts and that the financial system would be used to track payments for contracts. NJDOE also stated that Camden started to review the remaining 38 contracts mentioned in Recommendation 1.3 to determine whether the contracts were properly executed, that the goods and services were provided, and the funds were expended in accordance with applicable laws and regulations.

OIG Response
We reviewed the SOPs attached to NJDOE's comments. The planned SOPs were provided in response to our recommendations to establish controls over the contract administration system and the payments of goods and services. The SOPs expanded controls and procedures included in the Camden City Board's Governance Manual. If the planned SOPs are implemented correctly, they would establish a database to track contracts, maintain proper documentation to support contract expenditures and prevent overpayment of contracts by requiring prior approval from Camden's business administrator. However, the SOPs did not specifically describe how the database would interface with Camden's existing financial system to ensure overpayments were prevented. Therefore, the SOPs would not be sufficient to fully address Recommendations 1.1 and 1.3.

FINDING NO. 2 – Camden Had Inadequate Documentation to Support Expenditures of ESEA Funds

Camden did not have adequate controls to ensure that contracts and supporting documentation were maintained. We reviewed 50 contracts with ESEA expenditures totaling $11.7 million and found that Camden expended $4,526,936 for 23 missing or improperly executed contracts. For 8 of the 23 missing or improperly executed contracts, Camden lacked adequate documentation to support expenditures of $1,039,661. For the remaining 15 contracts, Camden had adequate documentation to support the expenditure; however, because the contracts were missing or improperly executed, we could not determine whether the expenditures were in accordance with the intended terms of the contract. We also found that for 15 of the 27 properly executed contracts, Camden lacked adequate documentation to support expenditures of $3,007,489.

Camden Could Not Provide Support for Approximately $4.53 Million in ESEA Funds Because of Missing or Improperly Executed Contracts and Inadequate Documentation

Camden did not ensure that 23 of the 50 contracts we reviewed were properly executed and maintained in Camden's contract files. Fourteen of the 23 contracts were missing from Camden's files. Although the contracts were approved by Board resolutions, the resolutions did not provide sufficient details regarding the scope of work the vendor was contracted to provide. Camden expended $3,374,362 in ESEA funds for the 14 missing contracts. Of the remaining nine, for which Camden expended $1,152,575 in ESEA funds, six contracts were signed only by the vendor, and three contracts were signed only by a Camden official. Without a contract signed by both parties, Camden did not have a fully executable agreement on the cost and scope of work to be performed.

According to the Camden Board's policy, the school business administrator was responsible for maintaining district records including contract files. Camden's purchasing agent stated that starting in FY 2009, he had been assigned responsibility for maintaining the contract files. During our audit period, Camden had five different school business administrators. Prior to FY 2009, Camden's school business administrators assigned various staff to maintain the contract files.

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. . . ."

According to the New Jersey Statutes Annotated (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.

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

In addition, Camden did not have sufficient documentation to support $1,039,661 expended for 8 of the 23 contracts that were missing or improperly executed. We reviewed Camden's files related to the missing or improperly executed contracts to determine whether sufficient documentation was maintained to support the expenditures for these contracts. Camden lacked documentation that would support attendance at workshops or seminars such as sign-in sheets for workshops or seminars and transcripts for teachers attending professional development courses. Three of the contracts were for services related to various software or Web sites; however, Camden did not have the corresponding license agreements as documentation to support that Camden officials had the right to access the sites for which it had contracted. Camden officials stated that its records were reviewed by various Federal and State agencies, and it was possible that the documents were misfiled or were not returned to Camden. Even if this happened, Camden needed to have proper controls to ensure that documents reviewed by others were returned and properly filed.[7]

According 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.

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

Because Camden did not consistently designate an official responsible for maintaining and tracking contracts awarded, Camden expended $4,526,936 on missing or improperly executed contracts. (See Enclosure 1 for details). Without properly executed contracts, there is no assurance that Camden and the vendor agreed to the scope of work, that the scope of work was met, and that the services were provided during the agreed-upon period and at the agreed-upon cost. Additionally, Camden did not follow policies and procedures for maintaining documentation and did not have controls to ensure that documents reviewed by others were returned and properly filed. As a result, Camden could not support $1,039,661 expended for 8 of the 23 contracts that were missing or improperly executed.[8] (See Enclosure 2 for details).

[7] On June 28, 2010, Camden's assistant business administrator informed us that Camden had recently implemented new procedures that required documents reviewed by others to be signed out and filed back only by Camden's staff.
[8] The $1,039,661 was included in the $4,526,936 of unsupported expenditures due to missing or improperly executed contracts.

Camden Had Inadequate Documentation to Support More Than $3 Million for Properly Executed Contracts Expended with ESEA Funds

For the 27 contracts that were properly executed and awarded during the period July 1, 2005, through June 30, 2009, we found that Camden lacked adequate documentation to support expenditures for 15 contracts funded with ESEA funds. Camden's records lacked supporting documentation such as the original copies of POs, vendor invoices, receiving reports for services provided and materials delivered, attendance or agenda records for vendors contracted to provide workshops and seminars to Camden teachers and students, and support for teacher attendance such as transcripts for teachers attending professional development courses.

Because Camden did not follow policies and procedures for maintaining documentation and did not have controls to ensure that documents reviewed by others were returned and properly filed, $3,007,489 in ESEA expenditures were unsupported. (See Enclosure 2 for details). By not keeping documents to support expenditures as required by OMB Circular A-87 § (C)(1)(j), Camden could not show its compliance with 34 C.F.R § 76.730.

RECOMMENDATIONS

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

2.1 Direct Camden to provide support that the 23 missing or improperly executed contracts were properly executed and that the goods and services related to those contracts were provided in accordance with contract terms, or return the $4,526,936, less $11,369 returned based on Recommendation 1.2, with applicable interest, to the Department.

2.2 Direct Camden to provide support for expenditures related to 8 of the 23 contracts that were missing or improperly executed even if Camden provides documentation that the contracts were properly executed in response to Recommendation 2.1, or return the unsupported amounts, with applicable interest, to the Department.

2.3 Direct Camden to provide support for $3,007,489 expended for properly executed contracts or return the unsupported amount of ESEA funds, with applicable interest, to the Department.

2.4 Direct Camden to implement policies and procedures to ensure that contract files include properly signed agreements; ensure that adequate documentation is maintained to support expenditures of procured goods and services; and develop specific policies regarding maintaining documentation, custody of records, and governance of files.

NJDOE Comments

In its response to the draft report, NJDOE neither agreed nor disagreed with Finding No. 2, disagreed with Recommendations 2.1, 2.2, and 2.3, and agreed with Recommendation 2.4. NJDOE stated that the State Monitor worked with Camden officials to locate the missing or improperly executed contracts. NJDOE stated that Camden will continue to search for all contracts that are missing and will properly execute all contracts. In addition, NJDOE cited N.J.S.A. 18A:18A-2, which recognizes a PO as a contract. NJDOE believed that a properly executed PO should have served as a contract between the district and the vendors. Further, NJDOE stated that Camden will provide support for the missing, improperly executed and properly executed contracts that lacked supporting documentation. NJDOE concluded that no funds should be returned to the Department. NJDOE added that if the OIG believes that services or goods were not supplied, Camden will attempt to recover the costs and return the funds to NJDOE. Regarding Recommendation 2.4, NJDOE stated that Camden developed and planned to implement an SOP on contract administration in April 2011.

OIG Response

We reviewed the additional contract documentation that Camden provided as an attachment to NJDOE's comments. Contrary to NJDOE's comments, Camden's documentation did not support that all missing contracts were properly executed. However, we determined that one contract that was initially categorized as improperly executed actually was properly executed, two contracts that were initially deemed as missing were improperly executed, one contract that had unsupported expenditures was fully supported, and another contract that had unsupported expenditures was partially supported. As a result, Finding No. 2 was revised accordingly.

Although N.J.S.A 18A:18A-2 established that a PO may serve as a contract, the POs did not include sufficient detail to ensure that proper procedures for procuring goods and services were followed. The POs we reviewed did not include detailed information for the scope of work to be performed or a schedule of costs which would otherwise be included in a formal contract. Initially, 24 contracts were missing or improperly executed, but as a result of our review of the additional contract documentation provided with NJDOE's comments, 23 contracts were still missing or improperly executed. Because the 23 contracts were missing or improperly executed, there was no assurance that the goods and services received were procured according to applicable laws and regulations.

Although Camden will attempt to recover unsupported ESEA funds and return the funds to NJDOE, those funds lapsed during our audit period. Accordingly, any funds that are recovered or that remain unsupported should be returned to the Department in accordance with our recommendations.

We also reviewed the SOP for contract administration that was attached to NJDOE's comments. The SOP expanded controls and procedures included in the Camden City Board's Governance Manual. If the planned SOP is implemented correctly, it would establish a database to track contracts and maintain documentation to track contract expenditures. However, the SOP did not specifically describe how the database would interface with Camden's financial system, or which documents would be retained, to support contract expenditures. Therefore, the SOP would not be sufficient to fully address Recommendation 2.4.

FINDING NO. 3 – Camden's Procurement Process Did Not Comply with Federal Procurement Requirements

Camden did not execute its procurement process in accordance with Federal procurement requirements. Camden did not perform cost or price analysis for competitive and noncompetitive contracts, did not maintain documentation to support the awarding of competitive contracts, and did not provide sufficient rationale for awarding noncompetitive contracts. In addition, contracted vendors provided services before Board approval and before Camden signed the contracts. Also, we identified signed contracts that were not dated by Camden.

Camden Did Not Perform Cost or Price Analysis

Camden did not determine the reasonableness of the proposed contract price of the 50 contracts we reviewed, totaling $11,754,080 in ESEA funds, as required by Federal regulations. According to 34 C.F.R. § 80.36 (f)(1), subgrantees must perform a cost or price analysis in connection with every procurement action, including contract modifications, to determine the reasonableness of the proposed contract price. An independent cost estimate must be made before receiving bids or proposals.

Of the 50 contracts, Camden awarded 43 contracts noncompetitively. For noncompetitive procurements, 34 C.F.R. § 80.36 (d)(4)(ii) and (f)(1) requires a cost analysis, such as verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, unless an exception applies. A cost analysis is not necessary if price reasonableness can be established through adequate price competition, on the basis of a catalog, or market price of a commercial product sold in substantial quantities to the public, or based on prices set by law or regulation. If a cost analysis is not necessary under the circumstances of the procurement, then a price analysis must be used to determine price reasonableness.

Camden did not document that it conducted a cost or price analysis on any of the 50 contracts. In fact, Camden did not maintain any documentation establishing that it made independent cost estimates. Accordingly, Camden could 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.

Camden officials did not perform any cost or price analysis because they were not aware of this Federal requirement. This may be due to the fact that NJDOE did not provide guidance on Federal procurement requirements to school districts. As a result of our preliminary review at Camden, NJDOE worked with New Jersey's Division of Local Government Services and the Department to issue contracting guidance, dated and effective January 15, 2010. This guidance requires all school districts that received Federal funds to certify compliance with the Education Department General Administrative Regulations.[9] It also instructs school districts to conduct an independent price analysis and include documentation in contract files that demonstrates the school district ensured the contract costs were reasonable.

[9] Education Department General Administrative Regulations include 34 C.F.R. Parts 74, 75, 76, 77, 79, 80, 81, 82, 84, 85, 86, 97, 98 and 99. They contain regulations for administering discretionary and formula grants awarded by the Department.

Camden Did Not Maintain Sufficient Documentation to Support Its Competitive Procurement Process

Camden used a competitive process for 7 of the 50 contracts. One of the seven contracts had documentation to support the competitive process used. For the remaining six contracts, for which Camden expended $499,697 of ESEA funds, Camden lacked documentation to support that the competitive proposals and sealed bids complied with Federal requirements. For the six contracts that lacked supporting documentation, one contract was awarded through a competitive proposal; however, Camden did not document that it publicly advertised a request for proposal identifying all evaluation factors; received proposals from two or more qualified sources/vendors; conducted an evaluation of the proposals using its established method; and awarded the contract to the vendor whose proposal was more advantageous to the program. The remaining five contracts were awarded using a sealed bid process; however, Camden's files lacked documentation to support that the bids were publicly advertised and solicited from an adequate number of known vendors, defined the items or services for bidders to properly respond, were opened at a prescribed time and place, and were awarded as fixed-price contracts to the lowest responsible bidders.

According to 34 C.F.R. § 80.36 (d)(3)(i) through (iv), for procurement by competitive proposals:

> (i) [r]equests for proposals will be publicized and identify all evaluation factors and their relative importance . . . (ii) [p]roposals will be solicited from an adequate number of qualified sources; (iii) [g]rantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees; (iv) [a]wards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered . . . .

When sealed bids are used, 34 C.F.R. § 80.36 (d)(2)(ii) states that:

> (A) [t]he invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids; (B) [t]he invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond; (C) [a]ll bids will be publicly opened at the time and place prescribed in the invitation for bids; [and] (D) [a] firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder . . . .

Camden had a record retention policy for contracts awarded competitively. However, Camden did not always follow its policy and procedures for record retention. As a result, Camden had insufficient documentation to support that it followed the procurement process for competitive proposals and sealed bids in accordance with Federal requirements.

Camden's Rationale for Awarding Noncompetitive Contracts Did Not Comply with State Statutes

Camden awarded noncompetitive contracts that did not qualify as library and educational goods and services, which were exempt from public bids, and to a vendor whose contract cost exceeded the bid threshold. N.J.S.A. 18A:18A-5 authorizes procurement through noncompetitive contracts if the contracted services are library and educational goods and services. In addition,

N.J.S.A. 18A:18A-3 allows a contract to be awarded noncompetitively when the cost of the contract does not exceed the bid threshold.

Camden documented that 35 noncompetitive contracts were for library and educational goods and services and, therefore, were not subject to a competitive bid. However, we found that 21 of the 35 contracts did not qualify as procurements of library and educational goods and services. According to New Jersey laws and regulations, library and educational goods and services were textbooks, copyrighted materials, services incidental to books, newspapers, photographs, and sound recordings, and specialized computer software used instead of reference materials. Fourteen of the 21 contracts provided services related to professional development and training that included college level courses, coaching, seminars, or workshops provided for Camden staff. Six of the 21 noncompetitive contracts included after-school programs, school-based family support, and college preparatory programs for Camden students. Lastly, for 1 of the 21 noncompetitive contracts, a vendor was contracted with to hire qualified teachers to work at Camden schools.

In addition, we found that one noncompetitive contract did not meet the bid threshold to be exempted from the publicly advertised bid requirement. According to N.J.S.A. 18A:18A-3, certified purchasing agents may award contracts without public advertising for bids when the contract cost does not exceed a bid threshold of $29,000. Camden awarded a contract to a vendor for an amount not to exceed $34,650. The Board resolution stated that the contract was awarded without public bidding or publication because the contract amount was below the "statutory threshold." However, the contract was above the statutory bid threshold of $29,000 and, therefore, should have been publicly advertised and bid. The vendor was contracted to provide writing workshops to 4th grade students to address writing deficiencies by using music, movement, and mnemonics. Camden did not document any other justification for awarding the contract noncompetitively.

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. . . ."

Per N.J.S.A. 18A:18A-5, "[a]ny contract, the amount of which exceeds the bid threshold, shall be negotiated and awarded by the [board] by resolution at a public meeting without public advertising for bids and bidding . . . if (a) [t]he subject matter thereof consists of: . . . (5) [l]ibrary and educational goods and services."

NJDOE did not provide adequate guidance regarding the type of services that qualified for an exemption under N.J.S.A. 18A:18A-5. As a result, Camden erroneously classified services in 21 noncompetitive contracts as library and educational goods and services. In addition, Camden erroneously justified the award of one contract as an exception to public advertising and bidding by stating it was below the statutory threshold. However, the amount awarded for the contract was clearly above the bid threshold of $29,000. We concluded that these contracts should have been awarded through a competitive bid process. Without a competitive bid process, there was no assurance that the services received from the noncompetitive contracts were "the highest quality at a fair price" as required by New Jersey statutes.

Subsequent to awarding the 21 noncompetitive contracts that we found were erroneously

misclassified, New Jersey issued guidance on January 15, 2010, requiring the use of a competitive procurement process for school and district improvement services intended to improve student performance. The 21 contracts fell within the category of student performance improvement services, and the January 2010 New Jersey guidance confirmed that a competitive procurement process was required for these services. As clarified in the New Jersey guidance, the services obtained under the 21 contracts did not qualify for exemption under N.J.S.A. 18A:18A-5. The guidance also instructed school districts to use open and competitive procedures where possible when awarding contracts for goods and services using Federal funds.

Contracted Vendors Provided Services Before Board Approval or Before the Contract Was Signed by Camden

We found that seven contracted vendors provided services before the Board approved or before Camden signed the contract. For two vendors, services were provided 5 months before the Board's approval. For two other vendors, the contracts were missing from Camden's files. However, according to supporting documentation, the two vendors rendered services approximately 2 and 6 months prior to the Board's approval. For the fifth contract, services were provided from August to December 2008; however, Board approval was not given until November 25, 2008. For the sixth contract, services started 3 weeks before the Board approved the contract and before Camden signed the contract. For the seventh contract, the Board approved the contract; however, services started 2 weeks before the date that Camden signed the contract.

According to N.J.S.A. 18A: 18A-4a, "[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 . . . ."

Camden did not have adequate written procedures regarding the procurement of goods and services. During an interview, Camden's purchasing agent, who was responsible for the procurement of goods and services, described the procedures for procuring goods and services. However, even these procedures were not always followed. In addition, Camden had inadequate internal controls to ensure that contracted services were provided after proper approval as required by State statutes.

Camden Signed But Did Not Date Contracts

During our audit period, we found that Camden signed contracts with five vendors that did not include the dates the contracts were signed. According to the Board resolutions, Camden received approval to enter into contracts with the five vendors. After receiving the Board's approval, the school business administrator signed but did not date the contracts. The signed contracts were filed in Camden's contract files. However, Camden's staff did not verify that the contracts were dated prior to filing the contracts.

According to N.J.S.A. 18A: 18A-36b, "[t]he 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." Because the contracts were not dated, there was no assurance that the contracts had

been signed before services began and after the Board had approved them and that they met the requirement to be signed within 21 days after being awarded.

RECOMMENDATIONS

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

3.1 Instruct Camden to implement policies and procedures to ensure compliance with laws and regulations regarding the performance of cost or price analysis for all procurement actions under 34 C.F.R. § 80.36 (f)(1).

3.2 Direct Camden to develop and implement controls to ensure that supporting documentation is maintained to support its compliance regarding cost or price analysis under 34 C.F.R. § 80.36 (f)(1); the procurement process for sealed bids under 34 C.F.R § 80.36 (d)(2)(ii); and the procurement process for competitive proposals under 34 C.F.R. § 80.36 (d)(3).

3.3 Direct Camden to update its policies and procedures to include the new State guidance and requirements issued on January 15, 2010, which required the use of a competitive procurement process for school and district improvement services intended to improve student performance, and monitor Camden's compliance with the requirements.

3.4 Monitor Camden to ensure compliance with State statutes regarding the exceptions to publicly bid and advertised contracts and obtaining Board approval prior to acquiring goods and services.

3.5 Monitor Camden's compliance with the State statute requiring contracts to be signed within 21 days after being awarded by ensuring that contracts are signed and dated.

NJDOE Comments

In its response to the draft report, NJDOE neither agreed nor disagreed with Finding No. 3, and agreed with all of the recommendations. NJDOE stated that Camden developed and planned to implement SOPs on the performance of cost or price analysis for all procurement actions under 34 C.F.R 80.36(f)(1), the procurement by competitive proposals under 34 C.F.R 80.36(d)(3), the use of a competitive procurement process for schools and district improvement services intended to improve student performance as specified in State guidance, and the requirement to sign contracts within 21 days after making the award. NJDOE also stated that Camden would develop and implement SOPs on a procurement process for sealed bids and a procurement process regarding the exceptions to publicly bid and advertised contracts.

OIG Response

We reviewed the SOPs that were attached to NJDOE's comments. The planned SOPs were provided in response to our recommendations to establish controls over the procurement process including cost analysis, competitive proposals and State procurement requirements. If properly implemented, the planned SOPs would address our recommendations as it relates to the competitive procurement process, except for the sealed bids process and the exceptions to publicly bid and advertised contracts included in Recommendations 3.2 and 3.4.

FINDING NO. 4 – Camden Had Internal Control Weaknesses in Its Accounting for Procured Goods and Services

Camden's fiscal control and fund accounting procedures did not ensure proper accounting for ESEA funds. Camden lacked proper internal controls in its accounting system to ensure that contract expenditures were properly allocated, accounting budget codes were not duplicated, and encumbrances were not duplicated.[10]

Camden Inappropriately Allocated Expenditures of $79,260 to Title I and $58,519 to IDEA

Camden inappropriately allocated expenditures to its Title I and IDEA Federal accounting codes. During the July 1, 2008, through June 30, 2009, audit period, Camden entered into three contracts with Camden County Educational Services Commission (CCESC) to provide teacher services to eligible Title I and IDEA students at nonpublic schools. Two of the contracts (Resolutions 13 and 94) were for services chargeable to Title I, and one contract (Resolution 83) was chargeable to IDEA. CCESC submitted invoices detailing its monthly services for all three contracts; however, when Camden paid the invoices, the expenditures were not always charged to the appropriate accounting code. As a result, Camden misallocated $79,260 for IDEA services to Title I and $58,519 for Title I services to IDEA. (See Enclosure 3 for details).

OMB Circular A-87 § (C)(1)(b) provides that to be allowable under Federal awards, costs must be allocable to Federal awards.

Although Camden's payments to CCESC did not exceed the contracted amounts, Camden's allocation of the expenditures resulted in improper charges to Title I and IDEA. This occurred because the vendors submitted one invoice that included charges for the three contracts. In addition, Camden's accounts payable officials were not aware that three contracts were awarded to CCESC, and Camden's accounting system did not include sufficient controls that would alert the accounts payable officials that multiple contracts were awarded to the vendor. The accounts payable officials relied on Camden's program office officials to verify and approve items billed by the vendor. However, for the CCESC contracts, the program office officials did not identify on the invoice which charges were for Title I and IDEA services. In addition, Camden did not follow proper accounting procedures because it did not make adjustments to its accounting system to accurately allocate the expenditures after Camden realized it had improperly charged the expenses to the wrong account. As a result, Camden's accounting system reflected inaccurate expenses, and its audited financial statements were misstated.[11]

Camden Duplicated Budgets of Title I Funds

Camden made duplicate budgets in its accounting system of more than $4 million in Title I funds for the July 1, 2006, through June 30, 2007, audit period. Prior to expending its funds, Camden's business office created accounting codes to budget funds awarded during the fiscal year. Each of Camden's funding sources was assigned separate accounting codes. During our review of one

[10] An encumbrance is a contingent liability, contract, purchase order, payroll commitment, tax payable, or legal penalty that is chargeable to an account. It ceases to be an encumbrance when paid or when the actual liability amount is determined and recorded as an expense.

[11] This misstatement may not have materially affected the outcome of the financial statements.

contract awarded during the 2006-2007 period, we found, according to PO documents, that Camden charged the contracted expenditures to an accounting code that did not exist in its accounting system. Upon further inquiry, we were informed that Camden opened two accounting codes to budget its Title I funds.[12] During the school year, Camden charged expenditures to both of the accounting codes. Camden's Independent Public Accountant (IPA) informed Camden that the same source of Title I funds was budgeted twice when it created the two accounting codes. Camden then transferred the expenditures charged to one accounting code to the other accounting code. More than $1 million in expenditures was charged to the duplicate accounting code before it was deleted. Because Camden officials were unaware that two accounting codes were created to budget the same Title I funds and it charged expenditures to both accounting codes, Camden was at risk of having over-expended its Title I funds.

Camden Duplicated Encumbrances for the Same Service

Camden created a duplicate encumbrance of $87,540 for one contract awarded during the 2005-2006 period. Camden encumbered the services to its blended accounting codes.[13] Camden officials later decided to charge the services to Title I. Instead of cancelling the funds encumbered to the blended accounting codes, Camden again encumbered the services to Title I. This resulted in a duplicate encumbrance for the same Title I services. When the funds were expended, Camden charged the services to the blended accounting codes. However, the funds remained encumbered to Title I. As a result of not properly and timely accounting for an encumbrance, Camden's available funds would have been understated in its system and may have put funds at risk of lapsing.

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."

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education, in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services, require NJDOE to—

4.1 Direct Camden to develop and implement policies and procedures that require the purchasing agent and program officials to monitor contracts to ensure proper allocation of payments made for contracted services.

4.2 Direct Camden to implement proper accounting controls to ensure proper classification of Federal funds in its accounting system.

4.3 Direct Camden to implement proper accounting controls to ensure that ESEA funds are properly disbursed and accounted for in its accounting system.

[12] Accounting codes were structured to identify the source of funds used and included additional coding to specify the purchasing activity.

[13] Blended accounting codes were used to record school-based expenditures. Schools approved with school-wide plans consolidate their Federal, State, and local funds in blended accounting codes.

NJDOE Comments

In its response to the draft report, NJDOE neither agreed nor disagreed with Finding No. 4, and agreed with all of the recommendations. NJDOE stated that Camden had implemented practices to monitor contracts to ensure proper allocation of payments among funding sources, proper classification of Federal funds in its accounting system, and proper disbursement and accounting of ESEA funds in its accounting system. NJDOE noted that Camden established a Federal account manager position about 3 years ago, which reported directly to the controller. According to NJDOE, the Federal account manager's duties included reviewing all spending requisitions for adherence to the approved grant application and posting to the proper account code. Also, the Federal account manager reviewed the account classification at the requisition level for compliance with the State's minimum chart of accounts. Because the practice was not memorialized in writing, the school business administrator will develop the SOP to include this practice.

OIG Response

NJDOE's comments did not address our recommendations for Finding No. 4. The improper allocation of expenditures to Camden's Title I and IDEA Federal accounting codes occurred because the correct account codes were not charged when making invoice payments at the accounts payable level. In addition, the assigned duties of the Federal account manager did not include reviewing account codes charged when making PO and invoice payments to vendors. Therefore, the Federal account manager position would not have detected the improper allocation of expenditures to Camden's Title I and IDEA Federal accounting codes.

The improper classification of Federal funds we noted was also beyond the assigned duties of the Federal account manager because it resulted from budgeting Title I funds appropriated to two different account codes. The budgeting function would pertain to Camden's business administrator or a designee within the business office.

The Federal account manager position would not detect and prevent duplicated encumbrances for the same service or ensure that ESEA funds are properly disbursed and accounted for in Camden's accounting system. The duplicate encumbrance did not occur as a result of a duplicated requisition; therefore, the Federal account manager would not have detected it in Camden's financial system.

We reviewed the SOP on payments that was attached to NJDOE's comments. The SOP expanded controls and procedures included in the Camden City Board's Governance Manual. If the planned SOP is implemented correctly, it would establish a system that properly identifies POs for payment and maintains proper documentation to support expenditures. However, the SOP did not specify accounting controls to prevent duplicated encumbrances. Therefore, the SOP would not be sufficient to fully address Recommendation 4.3.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether Camden's contract related expenditures funded through ESEA were allowable and spent in accordance with applicable laws and regulations. Our audit period was July 1, 2005, 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 July 1, 2005, through June 30, 2006, period. We revised our scope to segregate our audit of contract related expenditures for the period July 1, 2005, through June 30, 2009, and non-salary expenditures for the period July 1, 2006, through June 30, 2009. This draft report presents the findings related to the audit of contract related expenditures. Audit results related to other non-salary expenditures will be presented in a separate report upon completion of our work.

To accomplish our objective, we:

- Obtained an understanding of Camden's internal controls over procured goods and services by reviewing Camden's policies and procedures and conducting interviews with Camden officials; and conducted a limited review of judgmentally selected contracts awarded using ESEA funds during our preliminary review.
- Reviewed selected provisions of the ESEA, Federal procurement regulations, and OMB Circulars.
- Reviewed New Jersey State procurement statutes.
- Reviewed selected sections of Camden City Board's Governance Manual related to purchases paid with ESEA funds.
- Reviewed Camden's documents related to contracted vendors that were paid with ESEA funds, including (but not limited to):
    - Board minutes for meetings held during calendar years 2005, 2006, 2007, and 2008;
    - Board resolutions and contract files;
    - PO files; and
    - Chart of ESEA accounts.
- Obtained and examined Camden's expenditure reports for ESEA funds for FYs 2006, 2007, 2008, and 2009.
- Obtained and reviewed Camden's State Monitor's reports for FY 2009.[14]
- Obtained and reviewed the New Jersey State Auditor report of Camden for the period July 1, 2006, through February 28, 2009.
- Obtained and reviewed July 2009 and September 2009 Government Accountability Office Reports to Congressional Committees on American Recovery and Reinvestment Act of 2009 spending in New Jersey.
- Obtained and reviewed Camden's CAFRs Single Audit sections for FYs 2004, 2005,

[14] In October 2006, NJDOE appointed a State Monitor for Camden. State Monitors were appointed for school districts with serious fiscal deficiencies identified during a district's annual audit.

2006, 2007, 2008, and 2009, and the related audit documentation.
- Conducted interviews with the IPAs that performed Camden's financial statements and compliance audits for FYs 2004, 2005, 2006, 2007, 2008, and 2009.
- Reviewed IPA working papers for FYs 2006 and 2009 relating to ESEA expenditures.

Because Camden could not provide a universe of contracts awarded and funded with ESEA funds, we developed alternative procedures to determine the contracts awarded and funded with ESEA funds during the period July 1, 2005, through June 30, 2009.

We reviewed Camden Board meeting minutes to identify all resolutions for contracts awarded during the July 1, 2005, through June 30, 2008, period, and determined which resolutions were for contracted services. We reviewed Camden Board meeting minutes for calendar years (CYs) 2005, 2006, and 2007, and from January 1, 2008, through June 30, 2008. Based on our review, we found 261 resolutions for contracted services (102 were for contracts awarded in CY 2005, 84 in CY 2006, 59 in CY 2007, and 16 awarded between January 1, 2008, and June 30, 2008). Further, we reviewed Camden's contract and PO files to determine the number of the 261 resolutions that were contracted services funded with ESEA funds during the audit period. We determined that Camden awarded 63 contracts funded with ESEA funds for the period July 1, 2005, through June 30, 2008.

For the July 1, 2008, through June 30, 2009, audit period, Camden provided a list of 301 Board resolutions. We reviewed the contract and PO files and determined the universe of contracts awarded. For the July 1, 2008, through June 30, 2009, audit period, Camden awarded 79 contracts, of which we determined 25 were funded with ESEA funds.

Based on these alternative procedures, we determined that Camden awarded 88 contracts, with a total value of $14,899,894, funded with ESEA funds during our audit period. We judgmentally decided to review all contracts awarded in the amount above New Jersey's bid threshold of $29,000 because they would have been required, unless exempt, to be competitively bid. Based on this rationale, we reviewed a judgmental sample of 50 contracts with a total value of $14,384,678 of which $11,749,080 was expended during our audit period. We reviewed signed contracts, Board resolutions, POs, payment records and supporting documentation, such as invoices, sign-in sheets, teacher transcripts, and meeting agendas relating to the 50 contracts.

Because Camden had an inadequate contract administration system (see Finding No. 1), we were not assured that the 88 contracts constituted a complete universe. In addition, because Camden had missing and unsupported documentation (see Findings Nos. 1 and 2), we were not assured that we reviewed all expenditures relating to the 50 contracts. As a result, there is no assurance that the judgmental sample and expenditures were representative of the entire universe, and audit results should not be projected over the contracts we did not review.

During our review, we used the computer-generated expenditure reports to assist us with our review of contracts. The expenditure reports were used as an additional source of information to obtain vendor PO numbers and expenditures. We compared the computer-generated expenditure reports to the vendor contracted amounts and identified corresponding PO numbers. We also verified the expenditure data to the PO documents. Based on the documents reviewed, we concluded that the data contained in these expenditure reports were sufficiently reliable for the purposes used.

We conducted audit fieldwork at Camden's office in Camden, New Jersey, from November 11, 2008, through June 28, 2010. 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 the 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 July 21, 2010.

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.

Enclosure 1: Missing or Improperly Executed Contracts

	Vendor Name	Resolution Number	Type of Contracted Goods and Services	Contracted Amount	ESEA Amount Expended[15]
	Missing Contracts				
1	LLTeach, Inc.	188-SY06	Professional Development	$ 1,154,901	$ 1,022,632
2	Compass Learning, Inc.	108-SY05	Software, Support and Materials	$ 642,938	$ 642,938
3	Achieve 3000	109-SY05	Software, Licenses and Training	$ 477,360	$ 477,360
4	Scholastic, Inc. — READ 180	10-SY08	Software, Support and Materials	$ 402,000	$ 359,540
5	Peoples Publishing Group, Inc.	112-SY05	Textbooks, Materials and Supplies	$ 303,286	$ 302,894
6	Princeton Center for Leadership Training	102-SY05	Professional Development	$ 264,875	$ 264,875
7	Apex Learning	10-SY06	Online Subscriptions	$ 114,947	$ 114,947
8	Scholastic, Inc. — FASTT Math	11-SY08	Instruction	$ 87,170	$ 82,400
9	Rowan University	156-SY05	Professional Development	$ 36,792	$ 35,259
10	Learning Quest, Inc.	144-SY08	Professional Development	$ 32,500	$ 32,500
11	Accu Staffing Services	176-SY07	Temporary Staff	$ 180,000	$ 29,854
12	Desco & Associates	127-SY08	Delivery and Installation of X-Ray Scanners	$ 67,260	$ 3,912
13	Uniform City	47-SY08	Uniforms and Accessories	$ 93,050	$ 3,143
14	Book-It Distribution	171-SY07	Textbooks Delivery	$ 130,000	$ 2,108
	Improperly Executed Contracts				
15	Rutgers Institute for Improving Student Achievement	103-SY08	Professional Development	$ 517,500	$ 517,500
16	Foundations, Inc.	100-SY05	After-School Instruction	$ 180,000	$ 180,000
17	Camden County Educational Services Commission	13-SY08	Teacher Services	$ 148,150	$ 142,604
18	Southern Regional Educational Board	30-SY06	Professional Development and Support	$ 81,950	$ 81,950
19	William Crombie & Angelo DeMattia	53-SY06	Professional Development and Support	$ 125,000	$ 69,300
20	GED & Associates, Inc.	103-SY06	Professional Development and Materials	$ 56,300	$ 56,300
21	Education Institute of Rowan University	145-SY06	Professional Development	$ 40,825	$ 39,231
22	International Write Now, Inc.	62-SY05	Instruction	$ 34,650	$ 34,650
23	Institute for the Development of Education in the Arts	203-SY04	Instruction	$ 31,040	$ 31,040
			TOTAL	**$ 5,202,494**	**$ 4,526,937**

[15] The difference in totals for this column is due to rounding. The total ESEA amount expended of $4,526,937 is presented as $4,526,936 throughout the report.

Enclosure 2: Unsupported ESEA Expenditures

	Vendor Name	Resolution Number	Unsupported ESEA Expenditures	Reason Expenditures Were Unsupported			
				Missing Scope Details[16]	Missing All/ Part of PO Document	Missing Attendance Records[17]	License Agreement Missing
Missing or Improperly Executed Contracts							
1	Achieve 3000	109-SY05	$ 477,360		x	x	x
2	Princeton Center for Leadership Training	102-SY05	$ 264,875	x		x	
3	Apex Learning	10-SY06	$ 94,727				x
4	Southern Regional Educational Board	30-SY06	$ 81,950			x	
5	GED & Associates, Inc.	103-SY06	$ 49,476			x	
6	International Write Now	62-SY05	$ 34,650	x		x	
7	William Crombie & Angelo DeMattia	53-SY06	$ 32,700			x	
8	Education Institute of Rowan University	145-SY06	$ 3,923			x	
		TOTAL	**$ 1,039,661**				
Properly Executed Contracts							
1	Kaplan K12 Learning Services	20-SY05	$ 1,641,308	x			
2	Peoples Publishing Group	233-SY04	$ 298,000	x			
3	Pathways to College	9-SY08	$ 277,000		x		
4	Southern Regional Education Board	23-SY07	$ 219,395	x		x	
5	Teach for America	12-SY05	$ 100,000	x	x		
6	LL Teach, Inc.	29-SY06	$ 87,894			x	
7	Camden County Educational Services Commission	48-SY07	$ 82,500			x	
8	Standards Solutions	141-SY08	$ 74,800			x	
9	GED & Associates, Inc	176-SY05	$ 69,070	x		x	
10	College Board	38-SY08	$ 54,001		x	x	x
11	American Reading Company	31-SY05	$ 52,900			x	

[16] Missing scope details includes lack of documentation to show what the scope of services were, how the services were provided, or when the services were provided.
[17] Missing attendance records includes registration records, timesheets, sign-in sheets by contractor, proof of site visits or certificate of completion by attendees.

Enclosure 2: Unsupported ESEA Expenditures (continued)

	Vendor Name	Resolution Number	Unsupported ESEA Expenditures	Reason Expenditures Were Unsupported			
				Missing Scope Details	Missing All/ Part of PO Document	Missing Attendance Records	License Agreement Missing
12	Rowan University	165-SY05	$ 24,981			x	
13	America's Choice	81-SY05	$ 20,599			x	
14	Camden Center for Youth Development	166-SY05	$ 3,868			x	
15	Southern Regional Education Board	128-SY05	$ 1,173			x	
		TOTAL	**$ 3,007,489**				

Enclosure 3: Misallocation of Federal Funds per Check Payment[18]

Check No.	Check Date	Payments for Resolution 13 Title I	Payments for Resolution 94 Title I	Payments for Resolution 83 IDEA	Properly Allocated	IDEA Services Misallocated to Title I	Title I Services Misallocated to IDEA
142716	11/25/2008[a]	$20,868	-	-	$7,408	$13,460	-
		$33,322	-	-	$14,815	$18,507	-
144173	2/24/2009[b]	-	-	$89,195[19]	$52,158	-	$37,037
		-	-	$41,672	$20,190	-	$21,482
145399	5/26/2009[c]	-	-	$20,190	$20,190	-	-
146283	7/10/2009[d]	$29,154	-	-	-	$29,154	-
		$59,260	-	-	$59,260	-	-
		-	$26,667	-	$26,667	-	-
		-	-	$42,431	$42,431	-	-
146291	7/15/2009[e]	-	$18,139	-	-	$18,139	-
	Total:	**$142,604**	**$44,806**	**$193,488**	**$243,119**	**$79,260**	**$58,519**

[a] Camden paid CCESC $54,190 for Title I and IDEA services provided during September 2008 and October 2008, of which $31,967 was for IDEA services that Camden misallocated to Title I.

[b] Camden paid CCESC $130,867 and charged the entire expenditure to its IDEA accounting code. This payment consisted of $89,195 for Title I and IDEA services rendered from September 2008 through November 2008 and $41,672 for Title I and IDEA services rendered in December 2008. Because the services invoiced included Title I services, Camden misallocated $58,519 of Title I services to IDEA. In addition, Camden made a duplicate payment of $54,190 for September 2008 and October 2008 services, which had already been paid in November 2008.

[c] After the February 2009 payment was made, Camden's accounts payable officials realized they had made a duplicate payment to the CCESC. To offset the overpayment to CCESC, Camden did not make the full payment for January 2009 and February 2009 services. Instead, Camden paid for these services and subsequent monthly invoices in its July 10, 2009, payment. However, the May 2009 payment was for March 2009 IDEA services that were properly allocated.

[d] Camden paid $157,512 for Title I and IDEA services. However, $29,154 was for IDEA services Camden inappropriately charged to Title I. The remaining payment was properly allocated.

[e] Camden paid CCESC $18,139 for IDEA services which were misallocated to Title I.

[18] Because of rounding, some numbers in the table are understated by $1.
[19] The duplicate payment of $54,190 was included in the $89,195 payment.

Enclosure 4: 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

April 1, 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 Federal Education Funds (Control Number ED-OIG/A02J0002). Below is the NJDOE's response to the findings and recommendations contained in the report.

FINDING NO. 1 – Camden Had an Inadequate Contract Administration System

Camden did not have an adequate contract administration system. Camden used a manual process for procuring contracted goods and services that did not ensure supporting contract information were adequately documented, maintained, and tracked. As a result, Camden could not provide a universe of contracts funded with ESEA funds and overpaid contracted vendors $11,453.

RECOMMENDATIONS

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

1.1 Direct Camden to develop and implement a contract administration system that maintains sufficient details regarding the contracts awarded by funding source to properly maintain and track the administration of contracts, and mitigate overpayments to contracted vendors.

1.2 Direct Camden to return the $11,453 in unallowed ESEA funds, with applicable interest, to the Department.

1.3 Review the remaining 38 contracts funded with ESEA funds awarded in the amount below New Jersey's bid threshold of $29,000 to determine whether the contracts were properly executed, that the goods and services were provided, and the funds were expended in accordance with applicable laws and regulations.

NJDOE RESPONSE

1.1 and 1.3 The Camden City School District has developed and plans to implement in April 2011 the two attached standard operating procedures (SOP) on contract administration and payments for goods and services. The district has started the process of identifying and reviewing the remaining 38 contracts funded with ESEA funds awarded below New Jersey's bid threshold of $29,000 to determine whether the contracts were properly executed, that the goods and services were provided, and that the funds were expended in accordance with applicable laws and regulations. Additionally, a State Monitor was appointed to the district in 2009. He has worked with Camden officials to develop and implement a new contract administration system. The State Monitor reviews the system on a periodic basis. The State Monitor has reviewed the above referenced procedures with district officials and found them to be satisfactory.

1.2 Camden City School District will return $11,453 in un-allowed payments of ESEA funds with applicable interest to the Department. In addition it will request a refund of the overpayments from the vendor using the OIG audit report as documentation.

FINDING NO. 2 – Camden Had Inadequate Documentation to Support Expenditures of ESEA Funds

Camden did not have adequate controls to ensure that contracts and supporting documentation were maintained. We reviewed 50 contracts with ESEA expenditures totaling $11.7 million and found that Camden expended $4,580,937 for 24 missing or improperly executed contracts. For 10 of the 24 missing or improperly executed contracts, Camden lacked adequate documentation to support expenditures of $1,131,526. For the remaining 14 contracts, Camden had adequate documentation to support the expenditures; however, because the contracts were missing or improperly executed, we could not determine whether the expenditures were in accordance with the intended terms of the contract. We also found that for 14 of the 26 properly executed contracts, Camden lacked adequate documentation to support expenditures of $2,953,488.

RECOMMENDATIONS

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

2.1 Direct Camden to provide support that the 24 missing or improperly executed contracts were properly executed and that the goods and services related to those contracts were provided in accordance with contract terms, or return the $4,580,937, less $11,369 returned based on Recommendation 1.2, with applicable interest, to the Department.

2.2 Direct Camden to provide support for expenditures related to 10 of the 24 contracts that were missing or improperly executed even if Camden provides documentation that the contracts were properly executed in response to Recommendation 2.1, or return the unsupported amounts, with applicable interest, to the Department.

2.3 Direct Camden to provide support for $2,953,488 expended for properly executed contracts or return the unsupported amount of ESEA funds, with applicable interest, to the Department.

2.4 Direct Camden to implement policies and procedures to ensure that contract files include properly signed agreements, ensure that adequate documentation is maintained to support expenditures of procured goods and services; and develop specific policies regarding maintaining documentation, custody of records, and governance of files.

NJDOE RESPONSE

2.1 The State Monitor has worked with Camden officials to locate the 24 missing contracts and a number of them are enclosed. The Camden City School District will continue its search for all contracts that are missing either within the district or from vendors and will properly execute all contracts in order to avoid returning $4,580,937 less $11,369 with applicable interest to the department. However, N.J.S.A. 18A:18A-2 recognizes a purchase order (PO) as a contract. It is our belief that even if all formal written contracts cannot be obtained or fully executed, a properly executed purchase order and invoice documenting that the services or goods were received should serve as a contract between the district and the vendor. Therefore, no funds should be returned, as noted in the recommendation.

2.2 Camden City School District will provide support for expenditures related to 10 of the 24 contracts including missing scope details, missing all or part of the PO document, missing attendance records and missing license agreements. If documents cannot be produced, it is our contention as noted in our response to 2.1, that payments are properly made if there is a purchase order, an invoice, a vendor certification, and a

receiving copy. If the OIG believes that services or goods on any given contract were not supplied, the school district will attempt to recover the costs of those goods or services with applicable interest and refund the money with applicable interest to the NJDOE.

2.3 Camden City School District will provide additional support for expenditures related to $2,953,488 for properly executed contracts including missing scope details, missing all or part of the PO document, missing attendance records and missing license agreements. If documents cannot be produced, it is our contention that payments are properly made if there is a purchase order, an invoice, a vendor certification, and a receiving copy. If the OIG believes that services or goods on any given contract were not supplied, the school district will attempt to recover the costs of those goods or services with applicable interest and refund the money with applicable interest to the NJDOE.

2.4 The Camden City School District has developed and plans to implement the attached SOPs on contract administration in April 2011. The State Monitor has reviewed the procedures with district officials and found them to be satisfactory.

FINDING NO. 3 – Camden's Procurement Process Did Not Comply with Federal Procurement Requirements

Camden did not execute its procurement process in accordance with Federal procurement requirements. Camden did not perform cost or price analysis for competitive and noncompetitive contracts, did not maintain documentation to support the awarding of competitive contracts, and did not provide sufficient rationale for awarding noncompetitive contracts. In addition, contracted vendors provided services before Board approval and before Camden signed the contracts. Also, we identified signed contracts that were not dated by Camden.

RECOMMENDATIONS

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

3.1 Instruct Camden to implement policies and procedures to ensure compliance with laws and regulations regarding the performance of cost or price analysis for all procurement actions under 34 C.F.R. § 80.36 (f)(1).

3.2 Direct Camden to develop and implement controls to ensure that supporting documentation is maintained to support its compliance regarding cost or price analysis under 34 C.F.R. § 80.36 (f)(1); the procurement process for sealed bids under 34 C.F.R § 80.36 (d)(2)(ii); and the procurement process for competitive proposals under 34 C.F.R. § 80.36 (d)(3).

3.3 Direct Camden to update its policies and procedures to include the new State guidance and requirements issued on January 15, 2010, which required the use of a competitive procurement process for school and district improvement services intended to improve student performance, and monitor Camden's compliance with the requirements.

3.4 Monitor Camden to ensure compliance with State statutes regarding the exceptions to publicly bid and advertised contracts and obtaining Board approval prior to acquiring goods and services.

3.5 Monitor Camden's compliance with the State statute requiring contracts to be signed within 21 days after being awarded by ensuring that contracts are signed and dated.

NJDOE RESPONSE

3.1 Camden City School District has developed a SOP to ensure compliance with law and regulations regarding the performance of a cost or price analysis for all procurement actions under 34 C.F.R. § 80.36 (f)(1).

3.2 The Camden City School District has developed and plans to implement the attached SOP regarding the performance of a cost or price analysis for all procurement action under 34 C.F.R. 80.36 (f)(1) in April 2011.

The Camden City School District will develop and implement a SOP in April 2011 a procurement process for sealed bids under 34 C.F.R 80.36 (d)(2)(ii), whenever 34 C.F.R 80.36 (d)(2)(ii) is more stringent than N.J.S.A. 18A-18A.

The Camden City School District has developed and plans to implement the attached SOP regarding the procurement by competitive proposals under 34 C.F.R. 80.36 (d)(3) in April 2011.

3.3 The Camden City School District has developed and plans to implement the attached SOPs regarding the use of a competitive procurement process for school and district improvement services intended to improve student performance in April 2011.

3.4 The Camden City School District will develop and implement a SOP for a procurement process regarding the exceptions to publicly bid and advertised contracts in April 2011. The procedure will include both requirements of N.J.S.A. 18A-18A and 34 C.F. R. 80.36.

The Camden City School District has developed and plans to implement the attached SOPs on contract administration that includes obtaining Board approval for contracts equal to or greater than $36,000 prior to acquiring goods and services in April 2011.

3.5 The Camden City School District has developed and plans to implement in April 2011 the attached SOPs requiring contracts to be signed within 21 days, Sundays and holidays excepted, after making 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 by law.

The State Monitor has reviewed the above referenced SOPs with district officials and finds them acceptable.

FINDING NO. 4 – Camden Had Internal Control Weaknesses in Its Accounting for Procured Goods and Services

Camden's fiscal control and fund accounting procedures did not ensure proper accounting for ESEA funds. Camden lacked proper internal controls in its accounting system to ensure that contract expenditures were properly allocated, accounting budget codes were not duplicated, and encumbrances were not duplicated.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education, in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services, require NJDOE to:

4.1 Direct Camden to develop and implement policies and procedures that require the purchasing agent and program officials to monitor contracts to ensure proper allocation of payments made for contracted services.

4.2 Direct Camden to implement proper accounting controls to ensure proper classification of Federal funds in its accounting system.

4.3 Direct Camden to implement proper accounting controls to ensure that ESEA funds are properly disbursed and accounted for in its accounting system.

NJDOE RESPONSE

4.1 Camden has implemented practices to monitor contracts to ensure proper allocation of payments among grants/funding sources made for contracted services. A federal account manager position was established about three years ago due to the district's lack of federal spending oversight that routinely resulted in the return of large unspent federal funds balances. This position reports directly to the Controller and is independent of the Office of Federal and State Grant Funds. The account manager reviews all spending requisitions for adherence to the approved grant application and proper account coding and, when applicable, the allocation of costs among funding sources. The account manager identifies and works with program staff to monitor

unspent balances and to submit requests for grant modifications to efficiently and effectively maximize the benefits of federal funds. The State Monitor has reviewed the practice with district officials and has monitored the process. However, the practice is not currently memorialized in writing. The School Business Administrator has been charged with updating and supplementing the district's procedures manual for business operations. A written SOP will be developed by the district to document this practice within 30 days of this response.

4.2 Camden has implemented proper accounting controls to ensure proper classification of federal funds in its accounting system. The federal account manager, described above, reviews account classification at the requisition level for compliance with the state's minimum chart of accounts which is based on the classification system developed by the National Center for Education Statistics (NCES). As a secondary control the School Business Administrator reviews account classification compliance at the purchase order level as part of the approval process for POs.

4.3 Camden has implemented proper accounting controls to ensure that ESEA funds are properly disbursed and accounted for in its accounting system. The federal account manager reviews all spending requisitions for adherence to the approved grant application and proper account coding and, when applicable, the allocation of costs among funding sources. The district has a written SOP on payments.

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

Cicchino,
Office of Fiscal Accountability and Compliance

RJC/MA/CP/Response to OIG Audit of Camden – Adm.Fed.Funds
c: Christopher Cerf
Gregg Edwards
Barbara Gantwerk
Michael Azzara