

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

CHRISTINA SCHOOL DISTRICT

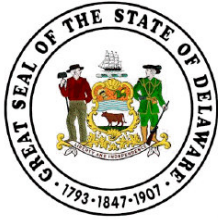
CONTRACTUAL SERVICES

SPECIAL INVESTIGATION

FIELDWORK END DATE: JUNE 4, 2007

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State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr. - CFE, CGFM, CICA

Case ID - 2007-024

June 4, 2007

At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

The Office of Auditor of Accounts (AOA) received a complaint regarding NOR Enterprises, Inc. The allegation stated that no services were being provided in return for the funds being expended.

Background

During the period of July 2005 through October 2006, the District made payments of \$294,518 for services provided by Norman Oliver and Norman Oliver owned businesses (Our Youth, Inc. and NOR Enterprises, Inc.). Services included Supplemental Education (SES); In-School Suspension (ISS); Time-Out; Transportation; an After School Teaching and Learning Academy; Intervention services at Glasgow, Christiana, and Newark High Schools; television air time on the Hazel Plant TV show; and Consulting.

NOR Enterprises, Inc. provides social, health, education and training programs to "hard to reach" youth and teen populations. NOR Enterprises, Inc. has a staff of twelve part time and full time mentors, counselors, consultants and outreach workers. NOR Enterprises, Inc. also has community volunteers who provide counseling, computer training, motivational talks and one-on-one tutoring. NOR Enterprises, Inc. provides services at schools, community centers and New Castle County Detention Center.

Our Youth, Inc. provides transportation services for Sarah Pyle Academy and the Homeless Transportation program.

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Christina School District Contractual Services - Special Investigation

What We Found

- **Inadequate Documentation Supporting Payment of Invoices, Services Received and Monitoring of Contract**

During AOA's review of payments made to NOR Enterprises, Inc., Our Youth, Inc., and Norman Oliver, the following issues were noted:

- There were minimal records of services received by the District from NOR Enterprises, Inc., Our Youth, Inc., and Norman Oliver;
- The District and Schools maintained little to no records of services received from NOR Enterprises, Inc., Our Youth, Inc., and Norman Oliver including goals and objectives, who received the services, the dates and times the services were received, who rendered the services, and other pertinent information regarding services; and
- With the exception of the Time Out Program, there was no documentation of the District's or individual Schools' monitoring of vendor performance.

- **Processing of "After the Fact" Purchase Orders**

On two (2) occasions, the District processed payment vouchers before the purchase orders were processed and approved. According to the State of Delaware *Budget and Accounting Manual* Chapter VI, "No agency shall incur any financial obligation nor shall any such obligation incurred be considered an obligation of the State except on properly executed and approved purchase order forms, except as set forth in this Manual... After-the-fact purchase orders will not be accepted."

- **Advance Vendor Payment**

The District paid \$20,000 to NOR Enterprises, Inc. for the After School Teaching and Learning Academy in advance of receiving the services. There was no supporting documentation for the invoice and District officials were unable to determine the purpose of the services, which students were to be served, and in which school(s) the services would be available. The State of Delaware *Budget and Accounting Manual* Chapter VII states, "Payments to vendors are to be made only after goods or services are received." Noncompliance with the State of Delaware *Budget and Accounting Manual*, lack of supporting documentation, and inadequate oversight of services could result in payment for services that were not rendered.

- **Inadequate Written Policies and Procedures**

The District does not have adequate written policies and procedures addressing receiving, monitoring and payment of services. Management is responsible for establishing internal controls through written policies and procedures. Documentation is a vitally important aspect of control and communication. The District has not fully documented their policies and procedures for current operating processes. This lack of written procedures increases the risk of loss of funds and theft of assets.

- During Fiscal Year 2007, the District hired a new Director of Budget and Finance (Director). The new Director questioned the services and documentation provided by NOR Enterprises, Inc. and requested details of the services provided. Details and supporting documentation were not provided by NOR Enterprises, Inc. and shortly thereafter, NOR Enterprises, Inc. terminated the services with the District, rather than opting to provide the requested information.

What We Recommend

The District maintain proper support for payments; The District maintain records of services received and monitor such services to ensure sufficiency and compliance with contracts/agreements; The District comply with the State of Delaware *Budget and Accounting Manual* and District policies and procedures; The District develop written policies and procedures to properly and adequately detail the receiving, monitoring and payment of services.

PLEASE READ THE COMPLETE REPORT FOR A FULL LIST OF FINDINGS/RECOMMENDATIONS AND TO REVIEW THE DISTRICT'S CORRECTIVE ACTION PLAN.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

ALLEGATION

The Office of Auditor of Accounts (AOA) received a complaint regarding NOR Enterprises, Inc. The allegation states that no services are being provided in return for the funds expended.

BACKGROUND

Christina School District (the District) is Delaware's largest public school system, serving a diverse group of students in grades K-12. The District is comprised of the following schools, which are located throughout northern New Castle County:

- High Schools: Christiana, Glasgow, and Newark
- Middle Schools: Gauger-Cobbs, George V. Kirk, and Shue-Medill
- Intermediate Schools: Bancroft, Bayard, Casimir Pulaski, Elbert-Palmer, and Frederick Douglass Stubbs
- Elementary Schools: Albert H. Jones, Brookside, Etta J. Wilson, Henry M. Brader, Jennie E. Smith, John R. Downes, Joseph M. McVey, May B. Leasure, R. Elisabeth Maclary, Robert S. Gallaher, Thurgood Marshall, West Park Place, and William B. Keene
- Special Schools: Christina ILC (Alternative/OPTION), Douglass Behavioral School (REACH/CBIP), Delaware Autism Program (Brennen School), Sarah Pyle Academy, and Margaret S. Sterck Delaware School for the Deaf.

During the period of July 2005 through October 2006, the District made payments of \$294,518 for services provided by Norman Oliver and Norman Oliver owned businesses (Our Youth, Inc. and NOR Enterprises, Inc.). Services included Supplemental Education (SES); In-School Suspension (ISS); Time-Out; Transportation; After School Teaching and Learning Academy; Intervention services at Glasgow, Christiana, and Newark High Schools; television air time on the Hazel Plant TV show; and Consulting.

NOR Enterprises, Inc. provides social, health, education, and training programs to "hard to reach" youth and teen populations. NOR Enterprises, Inc. has a staff of twelve part time and full time mentors, counselors, consultants, and outreach workers. NOR Enterprises, Inc. also has community volunteers who provide counseling, computer training, motivational talks, and one-on-one tutoring. NOR Enterprises, Inc. provides services at schools, community centers, and New Castle County Detention Center.

Our Youth, Inc. provides transportation services for Sarah Pyle Academy and the Homeless Transportation program.

ALLEGATION AND BACKGROUND

The following table summarizes the nature of services to be rendered for each program as well as payments made for each program.

<u>Program</u>	<u>Description</u>	<u>Payments</u> <u>7/01/05 – 6/30/06</u>	<u>Payments</u> <u>7/1/06 – 10/31/06</u>	<u>Total</u>
Time Out	Provide a "Time Out Assistant" for students who have been sent out of class for being disruptive.	\$174,180	\$20,190	\$194,370
Transportation	Transportation of (a) Homeless and (b) Work/study program at Sarah Pyle Academy.	8,888	2,004	10,892
SES	Tutoring services for students with academic difficulties. NOR was on the DOE approved SES provider list.	7,656	-	7,656
ISS	Provide an In-School Suspension assistant for students who have been suspended in school.	10,080	2,520	12,600
After School Academy	AOA could not determine the services to be rendered or the students that would be serviced for this program. The District did not provide a contract for these services.	20,000	-	20,000
Hazel Plant TV show	To provide informational sessions for the District on the Hazel Plant TV show in order to inform and educate District parents and stakeholders.	9,000	1,000	10,000

ALLEGATION AND BACKGROUND

<u>Program</u>	<u>Description</u>	<u>Payments</u> <u>7/01/05 – 6/30/06</u>	<u>Payments</u> <u>7/1/06 – 10/31/06</u>	<u>Total</u>
Intervention	<p>There was a leadership forum at Glasgow High School, where Mr. Oliver met with student leaders 3-4 times and then attended a leadership forum with a guest speaker. At Christiana High School a NOR employee would meet with hard to reach females and talk about careers and their lives outside of school. Newark High School did not provide any documentation to indicate what services were provided for \$8,000.</p>	\$ 24,000	-	\$ 24,000
Consulting	<p>AOA could not determine the services to be rendered or the students that would be serviced for this program. The District did not provide a contract for these services.</p>	15,000	-	15,000
		\$268,804	\$25,714	\$294,518

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

The objective of this investigation was to determine whether the District received services for the payments made to NOR Enterprises, Inc., Norman Oliver, and Our Youth, Inc.

SCOPE

The scope of this investigation covers payments made by the District to Nor Enterprises, Inc., Norman Oliver, and Our Youth, Inc. during the period of July 2005 through October 2006.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

METHODOLOGY

The techniques used in this investigation included interviews, inquiry, and inspection of documentation.

The investigation consisted of the following procedures related to services provide by NOR Enterprises, Inc., Norman Oliver, and Our Youth, Inc.:

- Identify and summarize the District's policies and procedures related to receiving, monitoring, and paying for services;
- Review requests for proposals (RFP) and contracts;
- Review payment vouchers (PV), invoices, and supporting documentation;
- Conduct interviews of District officials; and
- Review the District's documentation of monitoring of vendor performance.

CONCLUSIONS

During the period of July 2005 through October 2006, the District made payments of \$294,518 for services provided by Norman Oliver, Our Youth, Inc., and NOR Enterprises, Inc.

Time Out

The District paid \$194,370 to NOR Enterprises, Inc. for the Time Out program. Of this amount, AOA sampled transactions totaling \$111,290. For payments totaling \$110,490, there were no attendance records and/or timesheets supporting the invoiced days and hours and there was no documentation indicating the students served. In addition, the District received and paid an invoice for services for 10 days when supporting documentation indicated that only 9 days of services were received. The overpayment was \$140.

Transportation

The District paid \$10,008 to Our Youth, Inc. and \$884 to NOR Enterprises, Inc. for transportation services. The contract stated, "The District shall compensate the Contractor at a rate of \$52.00 per hour not to exceed \$130 per day"; however, the District paid \$35 an hour for 4 hours a days totaling \$140. Actual payments did not agree with the signed contract. A District official indicated a verbal agreement was reached which modified the contract to \$35 an hour and increased the number of hours per day. There was no written support for the change in contract terms. Support was provided indicating the hours and days worked.

SES

The District paid \$7,656 to NOR Enterprises, Inc. for Supplemental Education services. The District prepared a purchase order after the payment voucher was prepared. This is not in accordance with District policy or the State of Delaware *Budget and Accounting Manual*.

Attendance records were maintained that indicated the days students received services. The District was unable to provide timesheets indicating the hours worked each day. The District received and paid for an invoice for services for Presidents Day of 2006. The District was closed on this day. The cost associated with this day was \$40.93.

The contract states the District, "must develop, in consultation with parents (and the provider chosen by the parents), a statement of specific achievement goals for the student, how the student's progress will be measured, and a time-table for improving achievement" and "describe how the student's parents and the student's teacher or teachers will be regularly informed of the student's progress." The District provided student progress reports; however, the District was unable to provide evidence of specific achievement goals for the students.

ISS

The District paid \$12,600 to NOR Enterprises, Inc. for In-School Suspension. The District did not provide (a) a contract indicating the extent of services to be received, reporting requirements, or monitoring requirements or (b) documentation supporting the days and hours worked. Although the dollar amount for each of the payment vouchers exceeded \$2,500, the District did not prepare purchase orders. This is not in accordance with District policy or the State of Delaware *Budget and Accounting Manual*.

CONCLUSIONS

After School Teaching and Learning Academy

The District paid \$20,000 to NOR Enterprises, Inc. for the After School Teaching and Learning Academy in advance of receiving the services. Services were to be provided from August 2005 through May 2006. Payment was made September 12, 2005. The District was unable to provide a Request for Proposal (RFP) or contract for these services. There was no supporting documentation for the invoice and District officials were unable to determine the purpose of the services, which students were to be served, and in which school(s) the services would be available.

Hazel Plant TV Show

The District paid \$5,000 to NOR Enterprises, Inc. and \$5,000 to Norman Oliver for airtime on the Hazel Plant TV Show. With the exception of one segment, which covered Referendum issues, it was determined that the community outreach and informational purpose of the programs were in accordance with Title I requirements.

Intervention

The District paid \$24,000 to NOR Enterprises, Inc. for Intervention Services at Glasgow, Christiana, and Newark High Schools. The contract stated, "The purpose of this contract is to provide assistance to the students. . . who are experiencing academic and behavioral problems. The students will display a significant improvement in their behavioral patterns and academic progress." Neither the contract nor the supporting documentation indicated the types of services to be rendered or if the services were rendered to the satisfaction of the District. Timesheets and attendance records were not maintained.

Consulting

The District paid \$10,000 to NOR Enterprises, Inc. and \$5,000 to Norman Oliver for Consulting Services. The District was unable to provide a contract for these services. There was no supporting documentation indicating the services to be provided or if services were rendered to the satisfaction of the District.

General

During Fiscal Year 2007, the District hired a new Director of Budget and Finance (Director). The new Director questioned the services and documentation provided by NOR Enterprises, Inc. and requested details of the services provided. Details and supporting documentation were not provided by NOR Enterprises, Inc. and shortly thereafter NOR Enterprises, Inc. terminated the services.

FINDINGS AND RECOMMENDATIONS

Finding #1 – Inadequate Documentation Supporting Payment of Invoices, Services Received and Monitoring of Contract

During AOA's review of payments made to NOR Enterprises, Inc., Our Youth, Inc., and Norman Oliver, the following issues were noted:

- There were minimal records of services received by the District from NOR Enterprises, Inc., Our Youth, Inc., and Norman Oliver;
- The District and Schools maintained little to no records of services received from NOR Enterprises Inc., Our Youth, Inc., and Norman Oliver including goals and objectives, who received the services, the dates and times the services were received, who rendered the services, and other pertinent information regarding services; and
- With the exception of the Time Out Program, there was no documentation of the District's or individual Schools' monitoring of vendor performance.

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Management authorized the payments to NOR Enterprises, Inc., Our Youth, Inc., and Norman Oliver. However, due to insufficient supporting documentation, AOA could not determine if services were actually received in accordance with RFP's, contracts, etc. If supporting documentation is not received or reconciled to invoices, management cannot ensure that all transactions are accurate, valid, and appropriate. The District could be paying for services that were never rendered, poor quality of services, insufficient services, services provided to the wrong students, or services provided at the wrong time.

Recommendation

The District maintain proper support for payments. The District maintain records of services received and monitor such services to ensure sufficiency and compliance with contracts/agreements.

Auditee Response

The district has reinforced the requirement that all vendors provide sufficient documentation for contractual services, to include details such as log sheets with dates worked, detailed account of hours, students served, and a detailed description of the services provided. The building principal (or designee) must "OK to pay" the invoice and no invoices will be processed without appropriate documentation.

Additionally, the district will retain these records in compliance with records retention guidelines. The district is developing a "Monitoring" procedure for ensuring satisfactory performance of contractual services that will align with the *Internal Control - Integrated Framework (COSO)* guidelines.

FINDINGS AND RECOMMENDATIONS

Finding #2 – Processing of "After the Fact" Purchase Order

On two (2) occasions, the District processed payment vouchers before the purchase orders were processed and approved.

According to the State of Delaware *Budget and Accounting Manual* Chapter VI, "No agency shall incur any financial obligation nor shall any such obligation incurred be considered an obligation of the State except on properly executed and approved purchase order forms, except as set forth in this Manual." It further states that "After-the-fact purchase orders will not be accepted. This applies to such purchase orders being presented simultaneously with payment vouchers, and/or transfers, and cash receipts. It is each agency's responsibility to process their documents in a timely manner, in proper sequence and in accordance with established procedures." Christina School District's Policy number 5.1.13 states, "Do not order goods/services prior to your PO being processed. This would be considered an "after the fact" PO and would result in an audit finding."

Recommendation

The District comply with the State of Delaware *Budget and Accounting Manual* and District policies and procedures regarding the processing of "after the fact" Purchase Orders.

Auditee Response

The district is currently in compliance with the Delaware *Budget and Accounting Manual* and with its own internal policy, which does not allow "after the fact" purchase orders. Direct claims for expenditures without a pre-approved Purchase Order are not allowed and will be denied.

Finding #3– Advance Vendor Payment

The District paid \$20,000 to NOR Enterprises, Inc. for the After School Teaching and Learning Academy in advance of receiving the services. Services were to be provided from August 2005 through May 2006. Payment was made September 12, 2005. There was no supporting documentation for the invoice and District officials were unable to determine the purpose of the services, which students were to be served, and in which school(s) the services were be available.

The State of Delaware *Budget and Accounting Manual* Chapter VII states, "Payments to vendors are to be made only after goods or services are received. The only exceptions being: (1) where advance payments are standard business practices; e.g., maintenance contracts, subscriptions, registration fees, airline reservations. (2) Where it is in the state's best interest to make an advance payment. Any request for such payment must be in writing to the Budget Director and receive the concurrent approval of the Budget Director and the Secretary of Finance."

Noncompliance with the State of Delaware *Budget and Accounting Manual*, lack of supporting documentation, and inadequate oversight of services could result in payment for services that were not rendered.

FINDINGS AND RECOMMENDATIONS

Recommendation

The District comply with the State of Delaware *Budget and Accounting Manual*.

Auditee Response

The district is currently in compliance with the Delaware *Budget and Accounting Manual*. The district does not pay for goods until they are received or until services are rendered. A few exceptions are in the purchase of items such as subscriptions, registration fees for conferences, or for airline reservations.

Finding #4– Inadequate Written Policies and Procedures

The District does not have adequate written policies and procedures addressing receiving, monitoring, and payment of services.

Management is responsible for establishing internal controls through written policies and procedures. Written policies and procedures are beneficial for identifying and ensuring that control objectives are met, as well as the training of current and new employees, and are a valuable resource in the event an employee leaves the District. Policies and procedures should be updated regularly and include sufficient information to permit an individual who is unfamiliar with the District's operations to perform the necessary activities.

Documentation is an important aspect of control and communication. It generally provides (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

Internal Control - Integrated Framework, published by COSO, defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, written policies and procedures need to be established, communicated to employees, and documented.

The District has not fully documented their policies and procedures for current operating processes. Processes and policies may not be properly communicated to employees nor consistently followed. There is no assurance that new and existing personnel will have adequate guidance in performing their assigned tasks or that the District will be in compliance with applicable laws and regulations. This lack of written procedures increases the risk of loss of funds and theft of assets.

FINDINGS AND RECOMMENDATIONS

Recommendation

The District develop written policies and procedures to properly and adequately detail the receiving, monitoring, and payment of services. Policies should include:

- The identification of positions/individuals who (a) maintain the record of services received at the schools, (b) authorize transactions, (c) reconcile the services received to the invoices, and (d) review the reconciliations;
- Incorporation of all applicable laws and regulations.

Auditee Response

The district is developing a "Monitoring" procedure for ensuring satisfactory performance of contractual services that will align with the *Internal Control - Integrated Framework (COSO)* guidelines. This policy will detail what constitutes acceptable documentation on an invoice that proves services were rendered in accordance with the applicable contract. It will also identify the positions/individuals who (a) maintain the record of services received at the schools, (b) authorize transactions, (c) reconcile the services received to the invoices, and (d) review the reconciliations. Within the past year, the district has performed training of all administrators and secretaries who initiate PO's on the requirement to encumber funds via a PO before spending funds. The training also covered the requirement to validate that services were rendered satisfactorily or goods were received before the invoice will be paid.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Valerie Woodruff, Secretary, Department of Education

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Mr. James R. Durr, President, Board of Education, Christina School District
Dr. Lillian M. Lowery, Superintendent, Christina School District
Mr. Patrick O'Rourke, Director of Budget and Finance, Christina School District