

RIVERSIDE: AUDIT & ADVISORY SERVICES

December 23, 2010

To: Klara Pakozdi, Director
Child Development Center

Subject: Internal Audit of the Child Development Center

Ref: R2011-16

We have completed our internal audit of the Child Development Center in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2011-16 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact us.

Michael R. Jenson
Director

xc: Audit Committee
Assistant Vice Chancellor Plumley
Director of Business and Finance, Housing Services Villegas

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2011-16
CHILD DEVELOPMENT CENTER

DECEMBER 2010

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**UC RIVERSIDE
CHILD DEVELOPMENT CENTER
INTERNAL AUDIT REPORT R2011-16
DECEMBER 2010**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the limited scope of the audit, it is our opinion that except for the observations noted below, the Child Development Center's (CDC or Center) system of internal controls is generally adequate and in compliance with applicable University policies and procedures and the California Department of Education Health and Safety and licensing agency regulations.

Positive developments include:

- CDC has extended its facility in September 2009 to accommodate 144 additional students, thereby doubling its previous capacity.
- The CDC Parent Handbook was updated in June 2008.

We observed some areas that need enhancement to strengthen internal controls and/or effect compliance with University policy:

- Unrecorded CDC meal expenditures were noted. (Observation III.A.2)
- The Center's enrollment coordinating functions were assigned in a manner that did not provide an adequate segregation of duties. (Observation III.B.2)
- Potential safety hazards were observed during A&AS' CDC facilities ocular inspection. (Observation III.C.2)
- Meal menus were not posted at least one week in advance, as required by the CDC licensing agency. (Observation III.C.3)
- The new CDC facility does not have a fully functional video surveillance system. (Observation III.C.4)
- Some enrollment documentation deficiencies were noted. (Observation III.D.2)
- Non-compliance with UCR policies and agency regulations on parents' income verification requirements was noted. (Observation III.D.3)
- Forty tuition receivable accounts totaling approximately \$19,000 are at least 30 days past due. (Observation III.E.2)

These and other items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services, as part of its Audit Plan, performed an internal audit of the UCR Child Development Center (CDC) to evaluate efficiency and effectiveness of selected operations, adequacy of certain internal controls and compliance with certain Federal, State, and University policies and procedures.

B. BACKGROUND

CDC opened in 1969 as a parent cooperative. Since its inception, its programs have developed to meet the goals, expectations, and policies of the UCR, The California Department of Education, The Department of Social Services Community Care Licensing, and the Center's staff and parents. CDC is under the purview of the Vice Chancellor - Student Affairs, and managed by the Assistant Vice Chancellor for Housing, Dining & Residential Services. The Center became part of the Housing, Dining & Residential Services Division in FY 2007-08. It has 56 career employees and 46 student workers as of June 30, 2010.

CDC provides childcare services for UCR students, staff, and faculty. It is licensed to serve children between the ages of 2 months and 5 years, and offers the following programs:

- Infant/Toddler Program: The Infant/Toddler program serves children two months to three years grouped by developmental and chronological age in six full-day classrooms with several part time spaces available. The infant program philosophy emphasizes respect for the infant to be an active participant in their interactions with other infants and caregivers. In the Toddler classrooms, children have many opportunities to receive individual attention from the caregivers in a positive and nurturing manner. Toddlers enjoy daily activities that include sensory play, art activities, music, small group times for stories and songs, manipulations, and outside play with tricycles, climbing structures, playhouse, wagons and push toys.
- Pre-school Program: The Center provides five full-day classrooms and one half-day class with morning and afternoon sessions for children ages three to five years. This program provides a well-balanced curriculum with emphasis on children's social/emotional skills and developing a sense of autonomy. The multi-age groupings encourage pro-social behavior and an enriched cognitive environment. This setting ensures that children's needs (i.e. intellectual, physical, emotional, social and creative) are appropriately met at a variety of

levels. There is a special focus on self awareness and the appreciation of diversity within the classroom. Daily group times provide opportunities for sharing music and stories.

- Kindergarten Program: The Center provides a kindergarten program for children who meet the California age eligibility requirement which means they must turn five years of age by December of the year they are to enter kindergarten. The program has been developed to provide a broad curriculum and instructional approach that is compatible with current knowledge about how young children learn and develop. The strategies provide learning of academic skills through developmentally appropriate experiential activities in a meaningful context.

Admission to CDC is based on the availability of space in the appropriate age and developmental level classroom, and the date of application for services. CDC has extended its facility in September 2009 to accommodate more students. The new facility could accommodate 144 children, thereby doubling CDC's previous capacity. As of FY 2009-10, there were 183 students enrolled at the CDC. In FYs 2007-08 and 2008-09, 153 and 163 students, respectively were enrolled.

CDC staff is composed of various Child Development professionals such as teachers, teaching assistants, director, early childhood education interns, a music teacher and clerical personnel. All teachers should hold a valid Child Development credential issued by the State of California Commission on Teaching Credentialing, and all are employees of the University of California, Riverside. The CDC Coordinator has recently retired and the department is presently recruiting for the open position. Also, the CDC has a new director who started in July 2010.

C. SCOPE

Audit & Advisory Services' audit scope included:

1. **Financial Analytical Review**

We performed a financial analytical review of the actual revenue and expenditures in FYs 2007-08 to 2009-10. This included identifying unusual trends or fluctuations and obtaining explanations for any significant and unusual variances.

Also, we compared the actual revenues and expenditures against budgeted amounts in the two fiscal years previously mentioned, and obtained explanations for any significant and unfavorable variances.

2. General Internal Controls

We reviewed and evaluated The Child Development Center's overall organizational structure and controls to ensure that these are conducive to accomplishing the business objectives of the Division and the University through interviews with the Director of Business and Finance, Housing Services and the CDC Office Manager, as well as completion of the Internal Control Questionnaire (ICQ).

The interviews covered the following areas:

- Control Environment: The questions involved ways that management can inform staff of their roles, responsibilities, accountability, and authorities; it also included ways that management can create an environment to better ensure that integrity and ethical values are not compromised and that employees receive and understand the message.
- Risk Assessment: The questions were used to identify and assess the external and internal factors that could impact achievement of unit business objectives and provide a basis for certain management controls.
- Control Activities: The questions involved policies and procedures that help ensure that management's business objectives are achieved and directives are completed. Payroll controls were not included in this review as they will be generally covered in a separate audit on *Employee Time Reporting (R2011-B)*.
- Reporting and Monitoring: The questions involved management activities taken to assess the achievement of business objectives and the quality of internal control system performance.
- Communication: The questions involved how management identifies, captures, processes and reports information needed to achieve business objectives.

3. Child Care Center Health and Safety Compliance Review

An ocular inspection of the two facilities was conducted by A&AS on October 5, 2010, and supporting documents were examined to verify compliance with applicable California Department of Social Services Child Care Center Licensing Regulation Requirements, Title 22 (Regulations), including:

- Facility review certification by the Licensing Agency to ensure that the Center's facilities are safe for all pre-school, infant and school-age children, and conforms with the standards set by the certifying body;
- Proper documentation of the required criminal record clearance or exemption for all the teaching assistants, teachers, and staff of the Center employed as of April 30, 2010 thru reviews of the agency's "Facility Roster Information" notice and the Payroll Personnel System.

4. Enrollment & Eligibility Process

We judgmentally selected and reviewed a sample of 20 student files (10 each for state-funded and private students) from the Spring 2010 Roster provided by the Center's Office Manager to determine if all required documents have been submitted and/or signed by the parents/sponsors of the children prior to their admission to the programs.

Also, program eligibility for each of these children was reviewed.

5. Billing & Collection

CDC uses Kinderstreet for its web-based billing, collection and accounts receivable system.

The parents or children sponsors have the following modes of payment:

- Checks; or
- Payroll deduction (for faculty/staff parents that opted for it).

Check payments and payroll deductions were processed by the Campus Main Cashier's and CDC Offices, respectively.

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- * effectiveness and efficiency of operations
- * reliability of financial reporting
- * compliance with applicable laws and regulations

Substantive audit procedures were performed during the period July to October 2010 (not inclusive). Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS**A. FINANCIAL ANALYTIC REVIEW****1. Summary**

Results of the financial analytic review for CDC are summarized in the Limited Review of UCR Housing, Dining and Residential Services (R2010-06). No significant changes have been noted in this audit.

However, unrecorded CDC meals expenditures were noted, as explained below.

2. Unrecorded Expenditures

CDC was not billed by HDRS Administration for meals totaling \$36,756 that Dining Services provided to CDC in FY 2008-09. Of this amount, \$17,461 was billed to and recorded as an expenditure of CDC in FY 2009-10. The balance of \$19,295 was not billed to nor recorded as an expenditure of CDC.

COMMENTS

Our review of CDC's expenditures for FYs 2007-08 to 2009-10 disclosed the following significant variances:

BC and Description	FY 09-10	FY 08-09	FY 07-08	Increase/ (Decrease)) FY 09-10 Vs. FY 08-09	Increase/ (Decrease) FY 08-09 Vs. FY 07-08
BC 25, 26, 28 – Salaries- Staff	1,475,284	1,134,592	1,087,693	340,692 30%	46,899 4%
BC 30 - Benefits – Staff	617,402	431,313	418,038	186,089 43%	13,275 3%
BC 50 – Foods & Staples	73,933	6,532	33,902	67,401 1,031%	(27,370) (80%)
BC 50- Food & Staples after adjustments for unbilled meal charges	56,472	43,288	33,902	13,184 30%	9,386 28%

The increase in staff salaries and benefits in FY 2009-2010 was due to the additional employees for the new facility.

Daily meals and snacks for CDC students are provided by UCR Dining Services. During FY 09-10, expenditures for meals recorded in the "Foods and Staples" account averaged \$4,700 per month. Our financial analytic review disclosed that such account increased by 1,031% (or \$67,401) in FY 2009-10 against FY 2008-09.

The CDC Office Manager indicated that in FY 2008-09, CDC was not billed by HDRS Administration for the meals that Dining Services provided to CDC amounting to \$36,756. Of this amount, \$17,461 was billed to and recorded as an expenditure of CDC in the succeeding year, FY 2009-10. The balance of \$19,295 was not billed to nor recorded as an expenditure of CDC.

The HDRS Analyst explained that the total billed meal charges of \$17,461 for the months of October 2008 to June 2009 represented the total amount remaining on the CDC Food Grant. Thus, the balance of \$19,295 was left unbilled.

The increase in Food and Staples (after adjustments for unbilled meal charges) in FY 2009-2010 was due to the additional students in the new facility.

RECOMMENDATIONS

HDRS Administration should record the total meal expenses in the CDC account.

MANAGEMENT RESPONSE (HDRS Administration)

We concur with the recommendations. As of 2010/11, all meal expenses are being charged to the CDC.

B. GENERAL INTERNAL CONTROLS

1. Summary

We conducted a preliminary survey of the Center's operations using the Internal Control Questionnaire and interviewing the Center's Director of Business and Finance, Housing Services and CDC Office Manager to determine if the organizational structure and controls are conducive to accomplishing the objectives in the categories stated above. Our interview did not disclose any exceptions.

Further, we reviewed the enrollment process. Below is our observation.

2. Segregation of Duties

The Center's enrollment coordinating functions were assigned in a manner that did not provide an adequate segregation of duties.

COMMENTS

An interview with the CDC Manager, and review of the judgmentally selected files disclosed that the Enrollment Coordinator performed the following conflicting duties:

- Interviewed new families;
- Determined the appropriate program for the child;
- Discussed with parents the program fees;
- Determined the child's eligibility for state funding by reviewing the family's income and required parents of state-funded children to fill out certain California Department of Education (CDE) forms, and submit the necessary supporting documents (i.e. Proof of Income, etc.);
- Prepared and approved the necessary documents (i.e. Income Calculation Form, Notice of Action indicating the approved service and hours of service provided, etc.); and

- Recorded the enrollment or registration information into the Kinderstreet system.

RECOMMENDATIONS

Sound internal controls require that these responsibilities be assigned to personnel in such a manner that no one individual controls all aspects of processing a transaction.

The CDC Director should review and approve the necessary documents (i.e. Notice of Action) prior to finalizing the enrollment process.

MANAGEMENT RESPONSE

We concur with the recommendations. By January 2011, the Site Supervisor (just hired) and the CDC Director will review and approve all necessary documents prior to finalizing the enrollment process for funded families.

C. CHILD CARE CENTER HEALTH AND SAFETY COMPLIANCE REVIEW

1. Summary

Twenty student files (10 state-funded and 10 private) were judgmentally selected and reviewed.

The Facility Roster Report dated April 30, 2010 sent by the Department of Social Services, State of California – Health and Human Services (Agency) evidencing the Department of Justice criminal check clearance status was reviewed against the CDC's organizational chart and Payroll Personnel System (PPS) to determine if the required criminal record clearance or exemption was obtained by applicable employees prior to their joining CDC.

The Notice of Site Visit by the Agency for CDC in 2009 was reviewed and no violations were noted. It indicated among others that a review of staff records on September 1, 2009 for all facility staff or other individuals who require caregiver background checks have received criminal record and child abuse index clearances or exemptions. However, CDC was asked to update the following documents and submit these to the Agency within 30 days from the Agency's visit date of September 4, 2009:

1. Personnel Report;
2. Emergency Disaster Plan;

3. Parent Handbook/Program Curriculum/Admission policies and procedures/fee schedule;
4. Administrative Organization; and
5. Designation of Administrative Responsibility.

The CDC Office Manager indicated that these have been updated and submitted to the Agency. Furthermore, an ocular inspection of the two facilities was conducted on October 5, 2010 by A&AS to determine general compliance with some health and safety rules required by the California Department of Education, Title 22. Below are our observations.

2. Ocular Inspection

Potential safety hazards were observed during A&AS' CDC facilities ocular inspection.

COMMENTS

An ocular inspection of the two facilities was conducted by A&AS on October 5, 2010 and the following observations were noted in the *old* Center playground area:

- A liquid disinfectant cleaner and an open bag with potting mix were found outside classrooms that were accessible to children.

Section 101238, Title 22, Division 12, Chapter I of the Manual of Policies and Procedures for Community Care Licensing states:
"Disinfectants, cleaning solutions, poisons and items that could pose a danger to children shall be stored where inaccessible to children."

A&AS and the CDC Manager immediately called the attention of the responsible teachers who immediately stored the liquid disinfectant cleaner and potting mix bag in separate cabinets beyond the reach of children.

- A playground equipment item had a sharp, pointed wooden part that is considered a safety hazard for the students; and there were too many old, unused playground supplies and equipment.

Section 101239 (n), Title 22, Division 12, Chapter I of the Manual of Policies and Procedures for Community Care Licensing states:
"Furniture and equipment shall be in good condition, free of sharp, loose or pointed parts."

RECOMMENDATIONS

CDC should repair or dispose of the above-mentioned playground equipment.

CDC should ensure that its buildings, grounds, outdoor activity space are clean, safe, and protected against hazards. A health and safety compliance review or walkthrough should be conducted by CDC management on a regular basis (i.e. quarterly) to ensure that it complies with the Health and Safety regulations by the California Department of Education. Consultation with Environmental Health & Safety may be considered.

MANAGEMENT RESPONSE

We concur with the recommendations. On November 29, 2010, the CDC staff was reminded to store and make inaccessible to children all disinfectants, cleaning solutions, and any item that could pose a danger to children. The playground equipment with the sharp, pointed wooden part was repaired on October 11, 2010.

3. Facility Records

Meal menus were not posted at least one week in advance, as required by the CDC licensing agency.

COMMENTS

The CDC Manager has indicated that menus were posted around three days in advance.

Section 101227 (a) (6), Title 22, Division 12, Chapter I of the Manual of Policies and Procedures for Community Care Licensing states: *"Menus shall be posted at least one week in advance in a place visible by the child's authorized representative, dated and kept on file for 30 days, and made available upon request."*

RECOMMENDATIONS

CDC should ensure that menus are in writing and posted at least one week in advance, dated and kept on file for 30 days in compliance with applicable agency provisions.

MANAGEMENT RESPONSE

We concur with the recommendations. As of January 2011, all meal menus will be posted at least one week in advance, dated and kept on file for 30 days.

4. Video Surveillance System

The new facility did not have a fully functional video surveillance system.

COMMENTS

During the ocular inspection on October 5, 2010, we noted that while the old facility has a fully functional video surveillance system, the new facility did not have one. Although the new facility has video surveillance cameras- one in each classroom, one in the lobby, and three in the playground, the building has not yet been properly wired for the installation of monitoring screens. In addition, one of the playground cameras is not currently functioning.

RECOMMENDATIONS

CDC management should install the surveillance monitors, repair or replace the defective playground camera, and fully utilize the video surveillance system in the new facility.

MANAGEMENT RESPONSE

We concur with the recommendations. The non-functioning playground camera will be replaced in January 2011. The installation of the monitors will occur during Winter Quarter 2011. NVR (network visual recording) continues to occur and viewing is only available through requests made to the Housing IT Manager from the CDC Director. We will continue our practice of access NVR for identified issues.

D. ENROLLMENT & ELIGIBILITY PROCESS**1. Summary**

Twenty student files (10 state-funded and 10 private) from the Spring 2010 Enrollment List provided by the CDC Manager, were judgmentally selected and reviewed to determine compliance with the admissions and eligibility procedures indicated in the CDC Parent Handbook and the related California Department of Education regulations.

Below are our observations.

2. Documentation Deficiencies

Some enrollment documentation deficiencies were noted in our review of CDC student files.

COMMENTS

We noted some documentation deficiencies as follows:

- Physician's reports for two out of 20 students (or 10%) were not on file;
- Applications for Subsidized Childcare for two out of 10 students with grants (or 20%) were not on file;
- Subsidized Funding Information for one out of 10 students with grants (10%) was not on file;
- Intake for New Families of a newly-enrolled student was not on file;
- Intake for New Families of a newly-enrolled student was on file but was not signed by the parent;
- Family Needs Assessment for one out of 20 students (or 5%) was not on file;
- Parent Consent Form for Photos and Videos for one student out of 20 (or 5%) was not on file; and
- Indemnification, Waiver & Release section (Section IV) of the contract for one student out of 20 (or 5%) was not signed by the parent.

UCR-CDC Parent Handbook dated June 2008 requires that the above-mentioned documents be submitted to the Center by the parent during the application and registration process.

Also, Section 101220, Title 22, Division 12, Chapter 1 of the Manual of Policies and Procedures for Community Care Licensing states: "*Prior to, or within 30 calendar days following enrollment, the licensee will obtain a licensed physician's written medical assessment of the child. The assessment must be less than one year old.*"

RECOMMENDATIONS

The department should ensure that all required documents are submitted and/or signed by the parent, reviewed and approved by the Supervisor or Director prior to the child's admission to CDC.

MANAGEMENT RESPONSE

We concur with the recommendations. Effective January 2011, all child enrollment files will be reviewed and approved by the Site Supervisor

(recently hired) and the CDC Director prior to the child's admission to the CDC.

3. Eligibility Requirements

Non-compliance with UCR policies and agency regulations on parents' income verification requirements was noted.

COMMENTS

Review of the 20 judgmentally selected students' files and interview with the CDC Manager disclosed the following:

- a) Proof of income of an employed parent for one out of 10 students with grants (or 10%) was not provided to CDC.
- b) Proof of income was generally not obtained by CDC for parents who applied for and were granted Federal Food Program assistance for their children.

UCR-CDC Parent Handbook dated June 28 states: "*Families must complete all information requested on the State Certification Form, provide verification of gross monthly income, and training verification, and meet the income eligibility guidelines to apply for a free subsidy. Without information regarding gross monthly income and its verification, a family will not be considered for subsidized services.*"

RECOMMENDATIONS

CDC should ensure that it obtains and verifies the necessary proof of income from applicable CDC parents in compliance with the CDC Parents Handbook and California Department of Education regulations.

MANAGEMENT RESPONSE

We concur with the recommendations. The Child and Adult Care Food Program's Meal Benefit Form will be completed by the parents inclusive of declaring their family income. The form will also be signed by the parents to certify that all provided information is correct. However, income verification by the CDC staff is neither required nor practical. The CDC Parent Handbook will be rewritten to reflect this. The next issue of the Parent Handbook will be done by August 2011.

E. BILLING & COLLECTION

1. Summary

CDC uses Kinderstreet for its web-based billing, collection and accounts receivable system.

The parents or children sponsors have the following modes of payment:

- Checks; or
- Payroll deduction (for faculty/staff parents that opted for it).

Check payments and payroll deductions were processed by the Campus Main Cashier's Office and the HDRS Administration Office, respectively.

From the 20 judgmentally selected files, 10 were state-funded and 10 were privately funded. We reviewed the Customer Statement and Account Activity Reports as of June 30, 2010, and corresponding Pay Stubs of parents that opted for payroll deductions for all privately-funded accounts to ensure proper billing procedures and amounts, and no exceptions were noted.

Also, we reviewed the Account Activity Reports as of June 30, 2010 for all students. Below are our observations.

2. Tuition Fees Receivable

Forty accounts totaling approximately \$19,000 are at least 30 days past due.

COMMENTS

Review of the Account Activity Report as of June 30, 2010 disclosed the following:

- Forty-seven (47) accounts amounting to \$22,037 were outstanding as of June 30, 2010;
- Seven (7) accounts totaling \$2,944 were subsequently paid in July 2010;
- Twenty-eight (28) accounts totaling \$12,441 were 30-90 days past due; and
- Twelve (12) accounts totaling \$6,652 were more than 360 days past due as of September 23, 2010. These accounts will be referred to the Student Business Services for collection.

As stated in the CDC Parent Handbook: *“Tuition is due on the first day of each month. A billing period is identified as one month services. Tuition is billed and paid for in advance of receiving services..... Failure to pay fees will result in the withholding of services.... If you are unable to pay tuition on time, please discuss this with the Director. Services will be terminated if payment is not received in the month that services are provided.”*

RECOMMENDATIONS

The department should enhance their collection efforts and process, reduce past due accounts, and remind delinquent parents of the CDC Handbook provisions related to late payments and delinquent accounts.

MANAGEMENT RESPONSE

We concur with the recommendation. Effectively immediately, delinquent parents will be reminded of the CDC Parent Handbook provisions related to payments and delinquent accounts and policies will be enforced. Delinquent accounts will be submitted to the HDRS central office for collections, which includes establishing payment schedules and dismissal from the CDC.