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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
RAINBOW CHILD DEVELOPMENT CENTER INC.
JULY 1, 2004 TO JUNE 30, 2006**

**OFFICIAL AUDIT
REPORT
JULY 12, 2007**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

Rainbow Child Development Center, Inc. (RCDC) was founded in 1972 as a nonprofit corporation for the purpose of providing childcare services to families in the Worcester area, particularly the Plumley Village low-income housing project. RCDC is licensed by the Commonwealth's Department of Early Education and Care and serves approximately 272 children in its Family Childcare, Center-Based Preschool, Center-Based School Age, and Childcare Support Services programs. RCDC also conducts a summer camp for school age children that offers day activities and field trips to campers. Finally, RCDC, which is staffed by 35 full-time and 20 part-time employees, offers transportation services, meals, and snacks to children in all its programs.

The scope of our audit was to examine various administrative and operational activities of RCDC during the period July 1, 2004 to June 30, 2006. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included such audit procedures and tests as we considered necessary to meet these standards. Our audit procedures consisted of: (1) determining whether RCDC had implemented effective management controls and (2) assessing RCDC's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic requirements of its state contracts. Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the two-year period ended June 30, 2006, RCDC maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

4

1. INTERNAL CONTROLS OVER PROCUREMENT PROCESS NEED STRENGTHENING

4

Our audit revealed that RCDC needs to strengthen its internal controls over the procurement of goods, services, and capital assets. Contrary to state regulations, RCDC has not developed written policies and procedures that govern its procurement activities. Our sample test of expenditures found that RCDC purchased goods, services, and capital assets totaling \$854,547 without the benefit of price quotes, sealed competitive bids, or Requests for Proposals (RFP). Consequently, RCDC's procurement process does not ensure open and free competition and the efficient and effective use of state funds.

2. CONTROLS OVER PROPERTY AND EQUIPMENT NEED IMPROVEMENT

8

Our review revealed that RCDC needs to strengthen internal controls over its property to adequately safeguard its assets and has not maintained a detailed inventory listing in accordance with state regulations and its asset capitalization requirements. Specifically, RCDC's inventory list does not include an acquisition and disposal date, purchase price, location, or assigned asset number. Finally, RCDC's records indicate that RCDC had not conducted an annual physical inventory of property and equipment during the audit period. Consequently, RCDC's inventory listing could not be reconciled to RCDC's

fiscal year 2006 audited financial statements, which identified furniture/fixtures and equipment totaling \$15,150 and \$100,544, respectively.

3. EMPLOYEE EVALUATION PROCEDURE NOT FOLLOWED**11**

Our review of RCDC's employee files revealed that the Executive Director and program staff had not received annual performance evaluations during the audit period. Although such evaluations are required by RCDC's personnel policies and state regulations, RCDC's Board of Directors had never evaluated the Executive Director, and RCDC's program staff had not been evaluated since July 2004 or earlier. Moreover, RCDC provided the Executive Director and program staff with pay increases, promotions, and bonuses during the audit period without the benefit of performance evaluations. Consequently, there is inadequate assurance that RCDC's employees received these payroll adjustments based upon merit or that the adjustments represent reasonable, allowable, and allocable costs to the Commonwealth.

INTRODUCTION

Background

Rainbow Child Development Center, Inc. (RCDC) was founded in 1972 as a nonprofit corporation for the purpose of providing childcare services to families in the Worcester area, particularly the Plumley Village low-income housing project. RCDC is licensed by the Commonwealth's Department of Early Education and Care (DEEC) and serves approximately 272 children in its Family Childcare, Center-Based Preschool, Center-Based School Age, and Childcare Support Services programs. RCDC also conducts a summer camp for school-age children that offers day activities and field trips to campers. Finally, RCDC, which is staffed by 35 full-time and 20 part-time employees, offers transportation services, meals, and snacks to children in all its programs.

On October 16, 2003, RCDC purchased a building located at 10 Edwards Street, Worcester, for \$760,000. The three-story building, which is located within the same neighborhood as Plumley Village, is currently used by RCDC for its administrative offices and Center-Based Preschool program. Prior to moving into the building on March 28, 2005, RCDC invested an additional \$727,000 for renovations to the building. The renovations included building an elevator shaft, removing asbestos, encapsulating lead-based paint, landscaping play areas, reconfiguring office space, and creating classrooms. For the most part, RCDC is using Commonwealth funds to cover the mortgage on the building as well as fund the cost of renovations to date.

RCDC has also planned a second phase of renovations to its new building that includes installing an elevator, upgrading the plumbing and HVAC systems, and modifying access to its stairways. The anticipated cost of these renovations is approximately \$672,000, which RCDC has started to raise through fund-raising activities.

During our audit period, RCDC received funding that totaled \$4,656,210. The majority of this funding, \$3,464,064, or 74%, came through RCDC's childcare contracts with DEEC. The balance, \$1,192,146, or 26%, was provided primarily through other state grants and contracts, client fees, contributions, and released net assets. The table below details RCDC's funding during fiscal years 2005 and 2006.

Revenue Source	FY 2005	FY 2006	Total Revenue
Dept. of Early Ed. & Care	\$1,654,533	\$1,809,531	\$3,464,064
Client Fees	150,702	211,389	362,091
Released Net Assets	244,623	37,694	282,317
Other Mass. Grants	136,532	140,713	277,245
Contributions	97,398	101,662	199,060
Other Income	25,883	21,017	46,900
Dept. of Education	<u>12,641</u>	<u>11,892</u>	<u>24,533</u>
Totals	<u>\$2,322,312</u>	<u>\$2,333,898</u>	<u>\$4,656,210</u>

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of RCDC during the period July 1, 2004 to June 30, 2006. We conducted this audit in accordance with generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included such audit procedures and tests as we considered necessary to meet those standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence that provided a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives consisted of the following:

1. A determination of whether RCDC had implemented effective management controls, including:
 - Processes for planning, organizing, directing, and controlling program operations;
 - Policies and procedures to ensure that resource use is consistent with laws and regulations; and
 - Policies and procedures to ensure that resources are safeguarded and efficiently used.
2. An assessment of RCDC's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic requirements of its state contracts.

In order to achieve our objectives, we first assessed the management controls established and implemented by RCDC over its operations. The purpose of this assessment was to obtain an understanding of management's attitude, control environment, and the flow of transactions through

RCDC's accounting system. We used this assessment in planning and performing our audit tests. We then held discussions with RCDC officials and reviewed organization charts; internal policies and procedures; and all applicable laws, rules, and regulations. We also examined RCDC's financial records to determine whether expenses incurred under its state contracts were reasonable; allowable; allocable; properly authorized and recorded; and in compliance with applicable laws, rules, and regulations.

Our audit was not made for the purpose of forming an opinion on RCDC's financial statements. We also did not assess the quality and appropriateness of all program services provided by RCDC under its state-funded contracts. Rather, our audit was intended to report findings and conclusions on the extent of RCDC's compliance with applicable laws, regulations, and contractual agreements; and to identify services, processes, methods, and internal controls that could be made more efficient and effective.

AUDIT RESULTS

1. INTERNAL CONTROLS OVER PROCUREMENT PROCESS NEED STRENGTHENING

We found that the Rainbow Child Development Center (RCDC) needs to strengthen its internal controls over the procurement of goods, services, and capital assets. Contrary to state regulations, RCDC has not developed written policies and procedures that govern its procurement activities. Our sample test of expenditures found that RCDC purchased goods and services totaling \$854,547 without the benefit of price quotes, sealed competitive bids, or Requests for Proposals (RFP). Consequently, RCDC's procurement process does not ensure open and free competition and the efficient and effective use of state funds.

The state's Operational Services Division (OSD), the state agency responsible for regulating and overseeing the activities of contracted human service providers such as RCDC, in conjunction with the state's Executive Office for Administration and Finance and the Office of the State Comptroller, have promulgated *Commonwealth Terms and Conditions for Human and Social Services* (General Contract Conditions), with which all contracted human service providers must comply. Included within this document is a requirement for agencies such as RCDC to maintain written policies and procedures relative to the management of their operation. Specifically, Section 7 of the General Contract Conditions, *Record-keeping and Retention, Inspection of Records*, states, in part:

The Contractor shall maintain adequate written policies and procedures for accounting, management and personnel activities, including but not limited to conflict of interest and nepotism. . . .

RCDC belongs to a purchasing consortium that uses bidding procedures to negotiate contracts for a variety of goods and services including office supplies, paper goods, copier paper, bottled water, cell phones, etc. For other items, RCDC obtains verbal price quotes from vendors in an effort to purchase effectively. However, we found that RCDC has not developed written policies and procedures for its employees to follow when contracting for goods, services, and capital assets. Consequently, our sample test of contracts revealed that RCDC selected contractors based upon criteria that, at times, caused it to violate 808 Code of Massachusetts Regulations (CMR) 1.03(8). Under this regulation, the OSD requires human service providers such as RCDC to procure contractor furnishings, equipment, and other goods in the following manner:

All procurement of furnishings, equipment and other goods by or on behalf of a Contractor shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Capital Items, as defined in 808 CMR 1.02, shall be acquired through solicitation of bids and proposals consistent with generally accepted accounting principles.

Under 808 CMR 1.02, OSD defines Capital Items as follows:

(a) an asset or group of assets of nonexpendable personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the capitalization level established and certified by the Contractor in accordance with generally accepted accounting principles for financial statement purposes; or

(b) a repair, betterment or improvement or a group of repairs, betterments or improvements of non-movable assets which costs more than \$500 in aggregate and which adds to the permanent value of an asset or prolongs its useful life for more than one year.

During the audit, we reviewed six contracts totaling approximately \$1.2 million to ensure that RCDC's procurement process provided, to the maximum extent possible, open and free competition. RCDC awarded the contracts during fiscal years 2005 and 2006 for architectural, construction, consultant, transportation, and audit services. In two cases, for client transportation services totaling \$332,400 and audit services totaling \$23,750, RCDC utilized a competitive bid process to select its contractors. However, RCDC did not adhere to OSD's regulations for the remaining four contracts tested. Consequently, these contracts, which totaled \$854,547, were not awarded based upon open and free competition.

For example, as previously stated, RCDC purchased a building on October 16, 2003, which it uses for administrative offices and the Center-Based Preschool program. Prior to taking occupancy on March 28, 2005, RCDC needed to make substantial renovations to the building, but did not have the experience necessary to oversee the project. Therefore, RCDC hired a consultant to act as its Project Manager during the renovation process. As of the end of our audit fieldwork, RCDC had paid the consultant \$19,039, and RCDC plans to use the consultant to oversee a second phase of renovations to this building in the future. However, we found that RCDC did not hire the Project Manager based upon open and free competition. We found no evidence within RCDC's records to indicate that it attempted to contact other interested parties about the Project Manager position through newspaper advertisements, trade journal solicitations, telephone calls, etc. Moreover, RCDC's contract files did not contain bids,

proposals, or price quotes from individuals or firms interested in filling this position. Consequently, in this case, RCDC did not adhere to OSD's regulations governing the procurement of consultant services.

During the audit, RCDC's Executive Director offered several reasons for hiring the Project Manager without the benefit of open and free competition. First, prior to purchasing the building, the Project Manager volunteered to inspect the building free of charge and, after recognizing that RCDC lacked experience in construction matters, offered to serve as RCDC's representative in all other project-related matters. Second, according to RCDC's Executive Director, the Project Manager has over 30 years of experience in engineering, construction, and construction management and has an excellent reputation among local business leaders. Third, RCDC's Executive Director said that she respects and trusts the Project Manager as a friend and business associate. Thus, the Executive Director believed the Project Manager was the right person for the job.

RCDC's Board of Directors awarded a contract to the Project Manager in May 2003. While the contract was awarded approximately five months prior to RCDC purchasing the building, what appears as a premature award actually enabled RCDC to renovate the building and relocate its operations as quickly as possible.

Similarly, RCDC did not award its design contract totaling \$47,000 and construction contract totaling \$727,443 in accordance with OSD regulations. In each case, RCDC did not promote open and free competition, since it totally relied upon the Project Manager to recommend firms that he believed, based upon his knowledge of local contractors, were qualified to design and complete the renovations. In addition, RCDC did not require the recommended firms to submit formal bid proposals as part of the selection process. Consequently, RCDC cannot assure the Commonwealth that state funds were expended on this project in the most efficient, effective, and economical manner. The table below details the six contracts reviewed during the audit process.

Consultant/Contractor	Description	Amount	Competitively Procured
Cutler Associates, Inc.	Building Renovations	\$ 727,443	No*
AA Transportation	Client Transportation	332,400	Yes
Richard Blain & Associates	Capital Campaign Consultant	61,065	No
Cutler Associates, Inc.	Architectural Design	47,000	No*
Mottle, McGrath, Braney, & Flynn, P.C.	Audit Services	23,750	Yes
Bozenhard Co., Inc.	Construction Management	<u>19,039</u>	No
Total		<u>\$1,210,697</u>	

* Our review identified that Cutler Associates Inc.'s Director of Human Resources is a member of RCDC's Board of Directors. RCDC's Executive Director stated that this board member abstained from voting on matters involving her employer, Cutler Associates, Inc.; however, we did not find a notation to this effect within RCDC's board meeting minutes.

Recommendation

RCDC should develop written policies and procedures relative to the procurement of goods and services. These policies and procedures should reflect 808 CMR 1.03(8) as well as applicable generally accepted accounting principles. Furthermore, RCDC should utilize these policies and procedures for all its future procurements.

Auditee's Response

In response to this audit result, RCDC's Executive Director provided the following comments:

With the purchase and renovation of the Edward Street building, a great deal of thought and time by the board and executive director went into the selection of the project manager and the design build firm. As was explained, it was the job of the design build firm to select the subcontractors who did the work on the building. Those companies were chosen (through a bid process) based on cost and competency. The company selected knew the agency's budget limitations and acted accordingly to get the best prices available.

RCDC is a small organization with a very small administrative staff. It does not have (nor should it have) a purchasing department that can oversee a formal purchasing procedure with sealed bids for everything it purchases. However, as a business, the agency takes its purchasing obligations very seriously in an effort to get the best possible product for the best price. As a not-for-profit agency with limited resources the agency must follow these procedures to survive financially.

However, the agency will develop written policies and procedures to meet its purchasing needs in an effort to better formalize its purchasing process.

Auditor's Reply

We acknowledge RCDC expended a great deal of time and effort in the selection of a project manager and a Design/Build firm. However, the selection procedures followed by RCDC did not comply with state purchasing regulations, which are applicable to all human service providers, including RCDC. Rather than soliciting formal bids and proposals as required by state regulations, RCDC hired the project manager based upon friendships and business relationships. In turn, RCDC primarily relied upon the Project Manager's recommendations when selecting the Design/Build firm. In each case, RCDC's procurement procedures neither encouraged open and free competition nor ensured the efficient use of state funds.

In addition, RCDC's response indicates that the Design/Build firm selected subcontractors through a bid process based on cost and competency. However, RCDC's project files contain no documentation relative to this subcontracting process. Moreover, RCDC cannot assure the Commonwealth that the Build/Design firm acted in a manner that benefited RCDC's financial interest rather than its own interest. Finally, regardless of the Design/Build firm's intentions, RCDC is ultimately responsible for ensuring that its state funds are used in an efficient, effective, and allowable manner.

Lastly, we did not recommend that RCDC create a purchasing department that oversees a formal purchasing procedure with sealed bids for everything it purchases. Such action is not required under state regulations. The purchasing consortium utilized by RCDC as well as its efforts to obtain price quotes are both effective means of procuring non-capital items. However, RCDC needs to develop written policies and procedures governing its procurement system that are consistent with state regulations. Such policies and procedures will provide guidance for employees to follow when purchasing capital and non-capital items and ensure open and free competition to the extent practical.

2. CONTROLS OVER PROPERTY AND EQUIPMENT NEED IMPROVEMENT

We found that RCDC needs to strengthen internal controls over its property and equipment. Specifically, we found that RCDC has not developed written policies and procedures to adequately safeguard its assets and has not maintained a detailed inventory listing in accordance with state regulations and its asset capitalization requirements. In this regard, RCDC's inventory list does not include for each item an acquisition and disposal date, purchase price, location, or

assigned asset number. Finally, RCDC's records disclosed that RCDC has not conducted an annual physical inventory of property and equipment during the audit period. Consequently, RCDC's inventory listing could not be reconciled to RCDC's fiscal year 2006 audited financial statements, which identified furniture/fixtures and equipment totaling \$15,150 and \$100,544, respectively.

OSD has developed regulations for human service providers such as RCDC relative to property and equipment. Specifically, as previously noted, the General Contract Conditions require human service providers to maintain adequate written policies and procedures over their operations, including inventory. In addition, OSD, under 808 CMR 1.04(5), requires providers to maintain a written inventory of property in accordance with generally accepted accounting principles by stating the following:

Record-keeping and Retention, Inspection of Records. The Contractor shall maintain adequate written policies and procedures for accounting, management and personnel activities, including but not limited to conflict of interest and nepotism...

Inventory of Equipment and Furnishings and Other Goods. Any contractor in possession of capital items, as defined in 808 CMR 1.02, shall label, maintain and keep on file a written inventory of the property in accordance with generally accepted accounting principles...

RCDC's capitalization policy specifies that RCDC will capitalize all expenditures in excess of \$1,000 with a useful life of five years or more. Therefore, RCDC should have at least established an inventory control record that lists all its purchases meeting this criteria. This control record would be used to conduct an annual inventory and provide support for amounts reported on RCDC's financial statements. However, our audit found that RCDC did not maintain a complete record of items meeting its capitalization policy. Specifically, RCDC's inventory records identified 43 items consisting of computers, fax machines, and copiers; yet, RCDC's inventory records did not include items such as vehicles, playground equipment, kitchen appliances, office furniture, etc. Moreover, although RCDC included purchase date and manufacturers' warranty and serial numbers for some items, RCDC did not record the purchase price or assign an asset identification number for any listed item. Thus, RCDC's inventory policies, procedures, and inventory records did not facilitate a proper annual physical inventory and prevented RCDC from adequately ensuring that property and equipment purchased with

state funds, which totaled \$115,694 as of June 30, 2006, were safeguarded against loss, theft, or misuse.

Regarding this matter, RCDC's Executive Director stated that she was unaware of the Commonwealth's regulations governing property and equipment. In addition, the Executive Director said RCDC has tried to create a complete inventory record, but, due to employee turnover and the low priority given to the project, has not been successful.

Recommendation

RCDC should develop written inventory policies and procedures that reflect the provisions of 808 CMR 1.04(5) and Chapter 7 of the General Contract Provisions. In addition, RCDC should perform a complete physical inventory and prepare a detailed inventory record in accordance with state regulations and generally accepted accounting principles. Finally, RCDC should reconcile its inventory listing to its financial statements on an annual basis.

Auditee's Response

In response to this audit result, RCDC's Executive Director provided the following comments:

The agency does not have a written inventory of equipment. As stated, the agency has made attempts to do this in the past, but due to staff turnover, and the limited number of administrative staff, we have not been successful in keeping the inventory updated and complete. We do recognize that a written inventory would be beneficial in terms of planning and budgeting and will make every effort to prepare an updated written inventory. We will also discuss this with our auditors as there has never been any request to tie a formal written inventory into the audit statements.

While we have no complete written inventory, the Center has always been aware of the location of all its equipment. Theft or loss of inventory has never been an issue.

Auditor's Reply

We understand that personnel issues can effect the operations of small human service providers such as RCDC. However, state regulations require service providers to develop inventory policies and procedures in order to safeguard assets. Moreover, state regulations require that human service providers maintain an inventory listing of capital items. Without such controls, the location and disposition of capital items is not readily available and security over such assets is inhibited. Additionally, all amounts reported on financials statements should be validated by adequate supporting documentation. We encourage RCDC to follow through on its intention to

prepare an updated written inventory and once again recommend that RCDC prepare inventory policies and procedures in accordance with state regulations.

3. EMPLOYEE EVALUATION PROCEDURE NOT FOLLOWED

Our review of RCDC's employee files revealed that the Executive Director and program staff did not receive an annual performance evaluation during the audit period. Although such evaluations are required by RCDC's personnel policies and state regulations, we found that the RCDC's Board of Directors had never evaluated the Executive Director, and RCDC's program staff had not been evaluated since July 2004 or earlier. Moreover, RCDC provided the Executive Director and program staff with pay increases, promotions, and bonuses during the audit period without the benefit of performance evaluations. Consequently, there is inadequate assurance that RCDC's employees received these payroll adjustments based upon merit or that the adjustments represent reasonable, allowable, and allocable costs to the Commonwealth.

RCDC's personnel policy manual requires that employees be evaluated on an annual basis. Specifically, RCDC specifies, in part:

EVALUATIONS: Employees will be evaluated at the end of their probationary period and at least yearly thereafter. Evaluations shall consist of self-evaluation, peer feedback, and supervisor feedback, summaries of which will be written by the supervisor and filed in the employee's personnel file and signed by both the employee and the supervisor...

In addition, the Commonwealth's *Terms and Conditions For Human and Social Services*, Section 11a, Board of Directors Standards, states, in part:

The Contractor's Board of Directors will...annually review its Executive Director's or more senior manager's performance and set that person's compensation by formal vote. . . .

Employee evaluations are an important and vital management tool covering a variety of uses, including:

- Developing employee expectations and providing performance feedback.
- Recognizing and rewarding outstanding work.
- Identifying employee weaknesses and specifying corrective action.
- Identifying specific employee training needs.

- Maintaining a historical record of employee performance.
- Providing a basis for promotions, raises, bonuses, layoffs, transfers, and other personnel activities.

During the audit, the Executive Director stated that RCDC has been “lax” in regard to annual employee evaluations. In addition, the Executive Director stated that although the Board of Directors has not officially evaluated her performance in recent years, the Board continues to review RCDC’s budgets and financial condition, which directly reflects her day-to-day performance.

Recommendation

RCDC should evaluate all its employees on an annual basis in accordance with state guidelines and its personnel policies. RCDC should use these evaluations to support all its personnel decisions, including pay increases, promotions, disciplinary action, etc.

Auditee’s Response

In response to this Audit Result, RCDC’s Executive Director provided the following comments:

Administrative staff had not received written performance evaluations during the audit period. This has not happened due to time constraints. However staff receives verbal feedback on a continuing basis whether it be positive reinforcement or a review of concerns that may occur. When and if there have been serious concerns about an employee’s performance, those have been handled according to policy which includes verbal discussion, written warnings, and termination if required.

The Executive Director’s performance, for several years, was formally reviewed by the Executive Committee of the Board of Directors. A new format was put in place by the Board several years ago, but has yet to be formally implemented. The Board is aware of this situation and plans are underway to rectify the situation.

The auditors were informed at the time of audit that the agency’s employee handbook was extremely outdated and that a new one had been approved by the board and was in the process of being printed for distribution. The new policy states: “A written evaluation and job description signed by the employee is retained in the employee’s personnel file.” Job descriptions are part of each employee’s file. The agency is making every effort to prepare updated written evaluations for all of its administrative staff. These evaluations should be completed by the end of June for the 2007 fiscal year.

The agency has never had the luxury to award salary increases on merit alone with a few exceptions. Occasionally, there have been times when an employee has received less than the percentage rate awarded the rest of the staff due to performance concerns. In general the majority of staff provides a high standard of performance on a continued basis. Because agency salaries are lower than the norm due to funding constraints, and due to the fact the State, for the last several years, has increased rates to be used only

for staff salary increases, Rainbow staff have all received across the board salary increases which have totaled or exceeded the amount of the increase given by the State. This policy has been dictated and audited annually by the State Department of Early Education and Care.

Auditor's Reply

We commend RCDC for initiating a new evaluation format for the Executive Director and updating its employee evaluation policy. RCDC's past practice of relying primarily upon verbal feedback was not consistent with state regulations or its own personnel policies and procedures manual. While at times verbal feedback is an effective management tool, it does not provide a written history upon which an employee's performance can be monitored. RCDC's response addresses the agency's inability to provide salary increases based upon merit alone, but performance evaluations, as previously detailed, are essential to many employee-related matters, including (a) developing employee expectations, (b) recognizing and rewarding outstanding work, (c) identifying employee weaknesses and specifying corrective action, (d) identifying training needs, (e) maintaining a historical record of employee performance, and (f) providing a basis for layoffs, transfers, and other personnel activities. Finally, although the audit staff were informed that RCDC's employee handbook was outdated and that a new one had been approved by the Board, we based our review upon the policies and procedures in effect at the time.