



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Pleasantville Board of Education  
Early Childhood Education Program**

July 1, 2001 to November 27, 2002

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**Richard L. Fair  
State Auditor**

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# New Jersey State Legislature

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The Honorable Albio Sires  
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Enclosed is our report on the audit of the Pleasantville Board of Education, Early Childhood Education Program for the period July 1, 2001 to November 27, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in cursive script, appearing to read "Richard L. Fair".

Richard L. Fair  
State Auditor

March 19, 2003

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## **Pleasantville Board of Education Early Childhood Education Program**

### ***Scope***

We have completed an audit of the Pleasantville Board of Education, Early Childhood Education Program for the period July 1, 2001 to November 27, 2002. Our audit was limited to the expenditures made to community providers for the Early Childhood Education Program.

The state made funds available for Early Childhood Education Programs to Pleasantville School District and the 29 other Abbott districts. The program will assist Abbott districts in ensuring that each three and four year old will enter kindergarten ready to learn. The district has contracted with Department of Human Services licensed day-care providers for 180 days of six hour educational services and 245 days of wrap-around child care. Wrap-around child care can occur before or after the six hour educational day and full time care on those days when school is not in session including summer. The district paid approximately \$1 million to six community providers during the 2001-2002 school year. The district will pay approximately \$1.6 million to the same community providers during the 2002-2003 school year.

### ***Objectives***

The objectives of our audit were to determine whether expenditures were related to the program, were reasonable, and were recorded properly in the district's accounting system. We also reviewed the adequacy of the district's monitoring of the Early Childhood Education Program. This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

### ***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, and policies of the board. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of expenditure transactions. We read the budget and board minutes, and interviewed district personnel to obtain an understanding of the program and internal control. We also reviewed audit reports issued by the board's public accounting firm.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal controls and compliance attributes. Transactions were judgmentally selected.

### *Conclusions*

Although the expenditure transactions included in our testing were recorded properly in the district's accounting systems, we could not determine if the expenditures were reasonable and related to the Early Childhood Education Program. In making this determination, we also noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention and materially impacting the program at the level of the community providers.

The district was not adequately monitoring the providers' performances and comparing provider performance with the scope of services specified in the contracts. Provider budgets and expenditures were not reviewed to ensure compliance with contract terms and other requirements regarding the expenditure of funds.

These issues will also be included in an audit report of the program at the state Department of Education level.

## Master Teachers

**Master teachers should be utilized as intended.**

The current management structure and procedures do not ensure appropriate program oversight and accountability. The district employs more master teachers than the Department of Education guidelines require and does not utilize the teachers as intended. N.J.A.C 6A:24-3-3a states that Abbott districts shall provide master teachers at a ratio of 1 to 20 early childhood classrooms to facilitate the program and assist in professional development. Master teachers should dedicate the greatest amount of time to classroom visits; observing classroom practices, providing feedback directly to teaching staff, and retaining records of the classroom visits. During the 2001-2002 school year, the district employed four master teachers for use in 51 classes of three- and four-year olds and kindergarten. Three master teachers were required. The cost of the extra teacher was \$47,000. Beginning the 2002-2003 school year, the Early Childhood Program did not include kindergarten and the number of classes were reduced to 37. The district employed the same four master teachers although only two were required. The cost of the extra teachers was \$98,000. However, master teachers continued to devote a significant portion of their day to the district's 17 kindergarten classes with the least time spent at community providers. Uncertainty exists at the district concerning whether school principals or the program supervisor should assign responsibility to the master teachers. As a result, we found that master teachers perform other unrelated duties such as modeling lessons for first grade teachers, substituting for absent teachers, hall and lunch duties, shopping for curriculum theme materials and any other assignments from their school principal.

The master teachers also do not maintain documentation of classroom visits. One community provider complained that their master teacher simply observes the classes and leaves without providing

feedback. Records of classroom visits are needed to document ongoing program progress and reassessment.

***Recommendation***

We recommend that the district employ the appropriate number of master teachers and utilize them as intended by the Department of Education. The Early Childhood Program Supervisor should exercise the necessary control and monitor compliance with program requirements at all levels to ensure that they meet the Department of Education program expectations.

***Auditee's Response***

The report indicates that the district employed extra Master Teachers for a total of four teachers when two should have been sufficient to meet the requirements of the Early Childhood Program. The district and the Department of Education, Office of Early Childhood agreed that additional master Teachers were needed and they were approved as part of the budget. The Master Teachers were needed to conduct site visits to classrooms within the district and at our contracted school providers. The Master Teachers also performed other duties to administer and support the program such as shopping for supplies and items needed to support the weekly themes as part of the program.



**Provider Staffing**

**The district should ensure that the providers have proper staffing at all times.**

The Abbott Preschool contract states that the provider shall have a director who is responsible for the development and implementation of the overall program and maintain work hours during the six-hour educational program at their center. The contract further states that class size shall not exceed 15 children and should have one teacher and one aide. During our review we found that providers have no accountability to the district concerning employee attendance. Without proper staffing, program goals may not be achieved.

One provider did not have a director on site. The director of record was not involved with the daily oversight of the center and had no knowledge of its operation. At another provider, we found that the director (owner) was often not on site during education hours. During a one month time frame, the director was not at the center for five scheduled meetings. We could not reach the director on nine additional days during the month, while calling multiple times at different hours each day. We informed the supervisor of the Early Childhood Program of the problem, who conveyed awareness of the problem but did not detail specific corrective action. Based on the director's lack of availability, the classes do not have the proper oversight as contractually required. We conducted an unannounced visit at two providers and found that one provider had 30 children with one teacher and one aide. At the other provider, we found 15 Abbott children grouped with the non-Abbott children under the supervision of one aide while a meeting was held for other employees.

### *Recommendation*

We recommend that the district implement a procedure to ensure that the centers are properly staffed and that employees report to work in accordance with contract requirements.



### **Criminal History Record Information**

**The district and providers must ensure that employees have criminal history background checks.**

At the six community providers, we requested evidence that employees had undergone a Criminal History Record Information (CHRI) background check as required by the Abbott preschool contract and state statute. We found that the providers had no evidence of a CHRI for 24 of 70 employees, including one provider who had no evidence for 13 of 17 employees. The obligation to obtain the background checks rests with the providers. The district did not monitor for compliance with the contract and state statute. Employees who have not

received proper clearance from a CHRI background check are not permitted to work at provider locations. This condition could result in potential liability to the provider and the Pleasantville Board of Education.

***Recommendation***

Providers should ensure that all employees receive a CHRI background check that qualifies them for employment in a child care center. The district should monitor the providers for compliance.



**Provider Insurance Compliance**

**The district should monitor providers for insurance coverage.**

The Abbott Preschool contracts require providers to meet certain general, comprehensive automobile, and employer's liability insurance criteria. The general liability and comprehensive automobile liability insurance policies must name the Pleasantville Board of Education as an additional insured. The contracts also require an employee fidelity bond on all provider employees insuring against loss from an employee's dishonest acts.

There are instances of noncompliance with the insurance requirements at each provider. Three of the six providers lack the required coverage for general liability insurance. Four of the six providers have no automobile liability insurance and the other two providers do not have the proper coverage. One of the six providers does not have the required employer's liability insurance. Three of the six providers do not have the required employees' fidelity bond. In addition, three of the six providers do not name Pleasantville School District as an additional insured. The district does not obtain insurance certificates from the providers nor monitor for compliance of the insurance requirements. This could subject the district to additional risk resulting from litigation.

*Recommendation*

Providers should comply with insurance requirements as outlined in district contracts. In addition, the district should monitor the providers for insurance compliance and obtain certificates of insurance as evidence of coverage.



**Provider Financial Records**

**Pro**per financial records should support program costs.

Contractual provisions require that providers maintain a financial management system that provides timely, accurate, current, and complete disclosure of all financial activities. These records should be made available for inspection by the district, the state and their designee.

We reviewed the financial management systems in place at five of the six providers and found that the costs for Abbott students were blended with those for other programs. The providers could not determine the amount of expenses relating to a specific program. Financial reports and records provided to us also did not show direct expenses and the allocation of indirect expenses relating to the 180 six-hour days of educational services. Therefore, we could not determine the amount and propriety of expenses applicable to the program.

One of the six providers had no financial management system or financial statements. This provider accounted for both educational services and wrap-around care in one checking account. Evidence of revenue and expenditures could only be found through canceled checks and bank statements.

We tested disbursements for proper support and reasonableness and found problems at four of the six providers. At two providers, 40 percent of the disbursements tested totaling \$11,000 were unreasonable, not program related, or unsupported by

documentation. These included payments for a conference, gift certificates, cellular phone bills, a

tuition advance and multiple janitorial services. A third provider could not provide support documentation for 24 of 25 payments totaling \$29,000. These included payments for cellular phone bills, contribution to a family member, and credit card payments. The provider also made bi-weekly payments of \$2,000 to the sole shareholder of the corporation. These payments are not an allowable expense of the program. A fourth provider did not provide support documentation approximating \$90,000 for 49 of 53 payments. Many of these transactions appeared personal in nature, such as credit card payments and a check for cash. We also noted payments totaling \$30,000 to the IRS toward a \$58,000 debt for back payroll taxes, penalty, and interest for the quarter ending December 31, 1998 and the four quarters of 2001.

Currently, there are no detailed procedures provided by the state to the district to ensure the fiscal accountability of the providers. The district does not monitor to ensure that provider expenditures are appropriate and commensurate with program goals. The district recognizes the need and intends to hire a budget specialist for the ensuing school year to act as a liaison with the community providers on financial aspects of the program.

***Recommendation***

The district should develop procedures to ensure compliance with contractual requirements and the fiscal accountability of community providers. Providers' financial records should show direct expenses of the program and the allocation of the indirect expenses relating to the 180 six-hour days of education services. Expenses should be supported by documentation which is retained and available for inspection by the district and other necessary parties. Expenses that are not program related should not be charged to the program.



## Provider Budgets

**B**udgets should reflect program costs to the provider.

As part of the contracting process, the community-based providers are required to submit zero-based budgets and accompanying schedules reflecting the actual cost of delivering an educational program meeting Abbott quality standards. The district is responsible for ensuring that the costs in the provider budgets are reasonable and appropriate based upon a needs-based analysis. The budgets are submitted to the state Department of Education as part of the district's yearly operational plan. The district has been requesting funding through its operational plan without properly assessing the needs and circumstances of providers.

The district did request support schedules from providers showing actual costs. However, most of the providers ignored the request. The district then contracted with providers at a per pupil amount based on the budgets. As a result, the district is uncertain whether the providers are funded below or in excess of the cost of delivering the necessary services.

We reviewed provider budgets for the 2002-2003 school year and noted differences between the budgets and two providers' financial records. One provider's budget showed salary for two teachers totaling \$66,000, but actually pays \$12 per hour or approximately \$36,000 annually. This provider's budget also contained \$24,000 for rent which was not allocated between educational services and wrap-around care. We informed the district and the budget was adjusted to \$10,800 for this item. Another provider's budget showed salary for two teachers totaling \$70,000, but actually pays \$13 per hour or approximately \$38,000 annually. This provider's budget also contained \$8,100 for a food service worker for the non-Abbott children. We informed the district of these discrepancies and the budget was adjusted only for salaries.

***Recommendation***

We recommend the district adequately assess the financial needs of providers prior to developing the district's operational plans and requesting funding for the Early Childhood Education Program. This should include obtaining supporting schedules showing actual costs.

***Auditee's Response***

As the report states, the district requested support from the providers for questionable items contained in their budget submissions. Various comparisons and analysis were performed to ascertain if the provider's budgets were a reflection of the expected costs of providing educational services to the district. The district worked with the Department of Education, Office of Early Childhood during this time and they had final approval of these budgets as part of the Early Childhood Budget. At the time the contracts were executed the district and the Department of Education felt the budgets were a reasonable estimate of their expected costs.



**Provider's Payment Not Based on Enrollment**

**The district must monitor enrollment and attendance and adjust payments to providers accordingly.**

The preschool contract states that the Pleasantville School District shall pay the provider a set amount per child based on an average daily attendance of no less than 80 percent. The district does not monitor attendance and utilize the information as a means for determining payment. Providers submit daily attendance to the district which inputs the information into its attendance system. The resulting reports indicate that providers are not falling below the 80 percent attendance. However, reports are not reviewed for accuracy and reasonableness. One provider's reports of perfect attendance for five of ten months was not questioned by the district as unreasonable. We found that it was also inconsistent with the attendance records maintained on-site by the provider.

The district compensates the providers monthly for the maximum number of slots (15) or full enrollment of the classrooms. The records indicate classroom enrollments frequently fell below the maximum 15 students allowed. The district does not use the enrollment data as a means to adjust provider payments. As a result, payments are made to providers for unfilled slots. If the district paid based on enrollment, we estimate that \$58,500 could have been saved during the 2001-2002 school year.

*Recommendation*

We recommend that the district adhere to the contract requirements by adjusting the payment to providers based on classroom enrollments and average daily attendance. The district should more closely monitor the accuracy of the daily attendance reports.



**Payments to Non-Contracted Providers**

During our review of payments to providers for the 2002-2003 school year, we found two payments of \$5,600 and \$5,700 to a provider who did not have a contract with the district. This was due to an oversight by the district. As a result, the provider was paid for services to non-Abbott children.

**The district should ensure that payments are made to contracted providers.**

*Recommendation*

We recommend the district seek reimbursement of these payments. In the future, the district should ensure that payments are made only to providers for contracted child care centers.

