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Department of Education
Early Childhood Education Program

July 1, 2001 to February 28, 2003

Richard L. Fair
State Auditor

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Enclosed is our report on the audit of the Department of Education, Early Childhood Education Program for three and four-year olds for the period July 1, 2001 to February 28, 2003. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor

October 30, 2003

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Department of Education
Early Childhood Education Program

Scope

We have completed an audit of the Department of Education (DOE) Early Childhood Education Program for three and four-year olds for the period July 1, 2001 to February 28, 2003. Our audit included a review of the DOE's implementation and oversight functions as they relate to the Early Childhood Education Program statewide, the distribution of state aid to school districts as required by N.J.S.A. 18A:7F-16 for the Early Childhood Education Program, and a summary of problem areas encountered during audits of contracts with community providers at six Abbott districts.

A total of $330 million in Early Childhood Program Aid (ECPA) including aid for preschool and other programs was distributed to 132 school districts in both fiscal years 2002 and 2003, of which $232 million or 70 percent was received annually by the 30 Abbott districts. An additional $142 million in Abbott Preschool Expansion Aid was made available to the Abbott districts in fiscal year 2003 to fund the increase in the approved budgeted preschool costs from fiscal year 2002 to fiscal year 2003. This new category of aid supplements the other state aid awarded and provides the resources for program implementation.

The wraparound daycare component of the program which is funded by the Department of Human Services (DHS) was not included in our scope. The DHS expended $87 million in fiscal year 2002 and received an appropriation of $126 million in fiscal year 2003 to fund child care for Abbott District children before-school, after-school, and during summer months.

Objectives

The objectives of our audit were to determine if ECPA was distributed in accordance with applicable statutes and if community providers were in compliance with contract terms and statutory

requirements, and whether the program's fiscal and administrative operations were being properly monitored by the DOE and the local school boards.

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 DOE and of the various boards of education. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budgets and board minutes, and interviewed DOE and district personnel to obtain an understanding of the program and internal controls. We also reviewed audit reports and related workpapers for the six tested districts, which included Camden, Millville, Newark, Pleasantville, Trenton and Vineland.

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

Conclusions

We found that ECPA was distributed in accordance with applicable statutes. However, community providers were not in compliance with the administrative contractual terms and statutory requirements. In addition, the DOE and local boards of education were not properly monitoring the program's fiscal and administrative operations. The

findings and recommendations relating to these conclusions follow.

Background

N.J.S.A.18A:7F-16 provides Early Childhood Program Aid (ECPA) to all school districts with high concentrations of low-income pupils for the purpose of providing early childhood programs and services. The Comprehensive Educational Improvement and Financing Act (CEIFA) of 1996 required districts awarded ECPA to provide full-day kindergarten and half-day preschool programs to four-year olds by school year 2001-2002. For Abbott districts, the preschool requirement was expanded to full-day, full-year programs for three and four-year olds. This means six hours of comprehensive education and four hours of wraparound (basic day care) per day for the 180 day school year and 65 ten-hour days of wraparound in the summer months. School districts are also required to utilize existing early childhood programs and Department of Human Services (DHS) licensed day-care programs where feasible.

During fiscal year 2002 there were 35,000 children enrolled in preschool programs in the 132 school districts receiving ECPA. Eighty percent, or 28,000 children, were in Abbott districts. The Abbott districts used DHS licensed daycare programs and federal Head Start agencies to provide the services to 19,400 children.

Program funding should be driven by an authorized budget which is monitored for compliance and reflects historic/actual program costs.

Abbott Preschool Program Budgeting and Funding Process

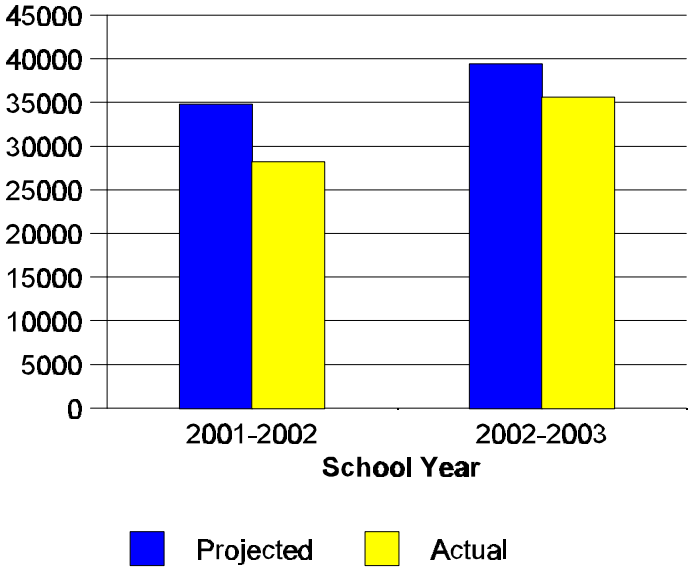
N.J.A.C. 6A:24-3.3 required full-day, full-year early childhood education be made available to three and four-year old children in Abbott districts by the 2001-2002 school year. The program is required to be adequately funded based on the demonstrated need of the community and the DHS providers. Districts requested funding for the educational component of their preschool programs through the submission of an Operational Plan to the DOE. The line item budget requests contained within the Operational Plan are primarily based on the projected preschool enrollment.

The actual cost of the preschool program must be determined and monitored to accurately project future funding needs and reduce the chance of misappropriation. Financial reporting for the early childhood programs consists primarily of the annual school district financial statement audits that are performed by independent accountants hired by the local school boards. The audit reports include a Statement of Early Childhood Program Aid which compares budgeted and actual expenditures in total. Individual program expenditures including the preschool program are not identified. The DOE does not require districts to report the actual cost of the programs and therefore cannot conclude on the effectiveness of the preschool program budgetary process. The DOE should have controls in place to determine if district budgets were reasonable. These controls should be able to detect deviations from the budget. Each district budget could be periodically compared to actual expenditures to help ensure that resources are not being misused. If expenditures are less than expected, it may indicate that program objectives are not being met. Budgetary control is important for ensuring that the DOE's resources are appropriately allocated.

In fiscal year 2003, the state made available an additional $142 million in preschool expansion aid to the Abbott districts because the amount appropriated for Early Childhood Aid did not increase from fiscal year 2002. This appropriation funded the increase in the approved budgeted preschool costs from fiscal year 2002 to fiscal year 2003. The rationale of a funding methodology that is based on a comparison of budgeted amounts without considering actual expenses is questionable in this circumstance as the DOE has not implemented procedures to ensure the validity of their budgetary process. As previously mentioned, actual program expenditures are not compared with budgeted amounts.

Furthermore, the preschool budgets are based on projected enrollments which have proven to be overstated. The overall program enrollment was 19 percent less and 10 percent less than projected in school years 2001-2002 and 2002-2003, respectively.

ABBOTT DISTRICT PRESCHOOL PROGRAM
Actual vs. Projected Enrollments



Recommendation

The DOE should establish procedures for the reporting of actual program costs by the districts for comparison to budgeted amounts. This information should be used to monitor the effectiveness of the program and for future funding considerations.

Auditee's Response

Beginning with the 2002-03 school year, the actual preschool program costs for Abbott districts were budgeted and will be reported separately from the kindergarten program. The financial schedule of early childhood program aid expenditures for instruction, support services and equipment represents only those expenditures related to the preschool program as funded by the Abbott district's ECPA allocation, ECPA carryover (if any), preschool expansion aid (if any) and other general fund revenue source as applicable. Therefore, the procedure for reporting actual preschool program costs by the Abbott districts for comparison to budgeted amounts is already established for Abbott districts.

The Department of Education also instituted an audit initiative for the 2002-2003 school year, utilizing the audit staff from the Office of School Funding, State Aid Audit Unit to conduct enrollment audits of all 30 Abbott districts, to verify actual 3 and 4 old preschool students served by the program. The results of these audits identified the differences between actual and projected enrollments. To adjust for the over estimated enrollment projections, the state aid payments for preschool expansion aid were reduced by an aggregate $47.7 million from the initial authorized $ 142 million reference in the OLS report.

For non-Abbott districts, the financial schedule of early childhood program aid expenditures still represents expenditures for kindergarten and preschool combined. Therefore, the department will take actions to change the reporting beginning with the 2004–05 school year (the earliest applicable year) and require the preschool and kindergarten programs

to be accounted for and reported as separate district programs.

Provider Budgets and Financial Records

Increased guidance from the DOE can help districts assess community provider needs and monitor for fiscal accountability.

In school year 2001-2002, the approved preschool budgets for the Abbott districts totaled $237 million, of which approximately $100 million was for contracts with community providers for the educational component of the program. Community provider budgeted costs increased by $112 million in school year 2002-2003 to $212 million.

As part of the contracting process, providers are required to submit zero-based budgets and accompanying schedules which reflect the actual cost of delivering the education program. The districts are responsible for ensuring that provider budgets are reasonable based upon a needs-based analysis. The budgets are submitted to the DOE as part of the districts' annual operational plans. Our review noted that the districts were requesting funding from the DOE through their operational plans without properly assessing the needs and circumstances of providers. We found that the provider budgets at two of the six districts reviewed were not the basis for the per pupil payments but in fact each district had negotiated per pupil rates. Because of this funding process, seven providers in one district were paid approximately $215,000 more than the budgeted cost of delivering the service in school year 2001-2002. Another district appeared to determine an amount to award each provider and then adjusted the budget rather than using the budget itself to determine the award.

The districts' abilities to determine a provider's actual costs and assess need is further hindered by inadequate record keeping and financial records. The Abbott preschool contracts require providers to maintain a financial management system that provides for accurate, current, and complete

disclosure of all financial activity. These records are to be made available for inspection by the district, the state and/or their designee. However, formal procedures for the review of provider program costs have not been provided to the districts by the DOE. We reviewed the financial management systems of 26 providers in the six audited districts and found that the providers were unable to determine the actual cost of their early childhood programs. Specifically, we noted:

- Two of the providers had no financial management systems or financial statements. These providers accounted for both educational services and wraparound care in one checking account. Evidence of revenue and expenditures for one provider could only be found through canceled checks and bank statements. No documentation to support program revenue and expenses was provided by the other provider but a review of their files indicated serious concerns relating to their viability. Federal and state payroll taxes were not paid for 2001 and portions of 2002. In addition, public utilities and telephone accounts contained past due amounts because of sporadic payments which also resulted in notices to shut off services.

- Provider financial systems that could be reviewed were not maintained in accordance with generally accepted accounting principles, as required. Expenses including staff salaries were not properly allocated between the 180 six-hour days of educational services and the 245 days of wraparound services. Financial reports and records at 24 of the 26 providers did not show direct expenses and the allocation of indirect expenses relating to educational services. Expenses were also not properly allocated between school district students and private students. Therefore, the amount and propriety of the costs associated with the program could not be determined.

- We tested program disbursements for proper support documentation and reasonableness and found problems at the majority of providers reviewed. Some payments were not supported by a bill or invoice. These included payments of cellular phone bills, contributions to a family member, credit card payments, payments made to "cash", reimbursements to owners and staff, and payments to individuals for services rendered when they were not on the payroll. There were also no written contracts. We also identified expenses that were not program related, which included payments for back taxes not associated with the program, gift certificates, personal expenses, and donations to churches, civic and miscellaneous organizations.

Recommendation

The DOE is in the process of revising its procedures to require providers to submit periodic expenditure reports to the districts. Guidance should be given to the districts for review and comparison of expenditure reports to approved budgets. Annual provider audits should also be required. This process would help ensure that only allowable expenses are charged to the program. The district should also ensure that provider financial records show direct expenses and the allocation of indirect costs.

Auditee's Response

Beginning with the 2003-04 planning process and strengthened in the recently distributed budget guidance for 2004-05, the department instituted a series of reforms to correct prior shortcomings and strengthen fiscal monitoring and reporting. Some of these changes include the following:

- The department has approved the hiring of fiscal specialist in districts with substantial numbers of contracting private providers. The fiscal specialist is responsible for working with private providers on budget development and execution, including monitoring provider expenditures for

compliance with approved budgets and monitoring record keeping and other contractual obligations. Training was provided to the fiscal specialists on the budgeting and monitoring process with an emphasis on how to help others construct budgets.

- Amendments to the administrative code and preschool contracting 2003-04 require contracting private providers to submit quarterly expenditure reports to districts, so that districts may track spending and ensure that preschool funds are properly spent in strict accordance with approved budgets including allowable indirect costs. Expenditures are reconciled with payments quarterly and at the end of the fiscal year on a cost reimbursement basis.

- Providers are already required to submit annual audits to the Department of Human Services and because of the Single Audit Act, we can not require that providers submit a second audit. However, providers may be subject to an audit of their Abbot preschool operations by the district or the DOE, including their financial activities and their compliance with their contracts and applicable state regulations. Beginning in July, 2003, the DOE Office of Compliance and Investigations conducts limited review examinations of fiscal activities on approximately 25% of the providers each year. Providers are selected based on the following indicators: 1) Failure to submit the required federal audit to DHS;2) failure to pay payroll or other taxes and fees; 3) complaints by employees or vendors of non-payment; 4) nomination by the district based on lack of timely data provision or faulty records or 5) other specific fiscal irregularities.

- Budget guidance for 2003-04 was substantially improved over the prior year and included line-

by-line instructions to assist providers in building a zero-based budget. Specific rules for allowable indirect costs were promulgated. This guidance was further enhanced and specified for 2004-05.

Provider Insurance Coverage

School districts should monitor providers for insurance coverage.

Contractual provisions require providers to meet certain general, comprehensive automobile, and employer's liability insurance criteria. The policies must name the respective boards of education as an additional insured. The providers must also have worker's compensation insurance and an employee fidelity bond. Our review found that 12 of 16 providers tested at three districts were not in compliance with some contractual insurance requirements. The three districts did not obtain insurance certificates from the providers or monitor them for compliance with insurance requirements. Specifically, we noted that five providers lacked the required coverage for general liability insurance, five did not have automobile liability insurance, and five did not have the proper automobile insurance coverage. Two providers did not have the required employer's liability insurance, three did not have the required employee's fidelity bond, and seven did not name the respective boards of education as an additional insured. Failure to comply could subject districts to additional risk resulting from litigation.

Recommendation

We recommend the providers obtain adequate insurance coverage as required by their contracts. Additionally, the DOE must ensure that the districts adequately monitor the providers.

Auditee's Response

See Eligibility Records.

Criminal History Background

The state and districts should ensure that provider employees have criminal history and child abuse background checks.

A Criminal History Record Information (CHRI) background check for every employee is required by the Abbott preschool contract and state statute. Our review of employee files at 16 community providers at three school districts found that 80 of 239 employee files contained no evidence of a CHRI. Additionally, we reviewed files in two districts for the Child Abuse Record Information (CARI) background check as required by N.J.A.C. and found 29 of 167 files lacked evidence of the CARI. The obligation to obtain background checks rests with the providers. Employees without proper clearances should not be permitted to work at provider locations. These conditions could result in potential liability to the provider and the school districts.

Recommendation

We recommend providers perform CHRI and CARI background checks on employees to qualify them for employment in child care centers. Additionally, the DOE should ensure that the districts monitor the providers for compliance with these requirements.

Auditee's Response

See Eligibility Records.

Eligibility Records

Eligibility records need to be properly retained.

One district's Early Childhood Education unit individually reviews and approves the eligibility of each child before registering them to receive services under the Abbott program. Eligibility criteria of the Abbott program include proof of age, residency, and immunization records. For children receiving services from community providers, these records shall remain in the custody of the providers in accordance with the school district's record retention schedule or be transferred to the school district when no longer required to be maintained. During our audit of this district, we visited five providers where we tested 108 registration files to verify program

eligibility. Four of the five providers tested did not maintain complete records, and although all of the children may have been eligible, we were unable to independently verify eligibility for more than 20 percent of the children. Of the 108 registration files tested, 23 lacked proof of residency and 16 did not contain a valid birth certificate.

Recommendation

We recommend that the DOE and districts monitor and enforce the retention of the records.

Auditee's Response

The following methods have been instituted to ensure compliance in these areas:

- Monitoring the provider's records and documentation is one responsibility of the fiscal specialist position. In addition, through the quarterly expense reports, providers must document insurance coverage and payments.

- In February 2003, districts were given the Abbott Preschool Uniform Child Enrollment Form and regulations require that the information be collected at time of enrollment and kept in a data base at the district. The DOE will collect these data on October 31 each year.

- The DOE's enrollment audits included reviews of students' eligibility records on an audit sample basis and identified deficiencies where applicable for missing students records. These students were not included in the verified counts for state aid payment purposes. The enrollment audits also identified deficiencies in the areas of criminal history background reviews and provider insurance coverage as applicable to each audit conducted. Every Abbott district is required to submit corrective action plans to the State Aid Audit Unit that ensure remedies an follow-up actions in the areas of: Student Eligibility Records, CHRI and CARI background checks

and Provider Insurance Coverage. This process provides a component of the oversight recommended by OLS.

- In June 2003, the DOE initiated the Self-Assessment and Validation System (SAVS) that establishes measurable criteria for all preschool program areas based on the Abott Preschool Program Implementation Guidelines and applicable state regulations. Validation teams will conduct site visits and review documentation to support the SAVS ratings, and thus, ensure compliance with all regulations, programmatic requirements, and contractual issues.

Program Oversight

The DOE should ensure that districts utilize master teachers as intended and monitor providers for proper staffing.

The lack of program oversight by DOE and the school districts was illustrated by one of the sample district's use of master teachers and inadequate provider staffing. We found that the current management structure and procedures did not ensure appropriate program oversight and accountability.

The district employed more master teachers than the DOE guidelines required and did 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 the 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 was 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.

The other area of concern is provider staffing. 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 there should be 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. 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 DOE increase program support and workshops so that districts can properly assess their needs for master teachers, employ the appropriate number of master teachers, and utilize them as intended by the Department of Education. The Early Childhood Program supervisors at the district level 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.

We also 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.

Auditee's Response

It should be noted that this finding is based on the practices in one district and that other districts have exemplary procedures in place to avoid just these problems. In addition, on-going meeting have taken place with this district to remedy the problems.

In the summer of 2002, the Abbott Preschool Program Implementation Guidelines and the Preschool Teaching and Learning Expectations: Standards of Quality were disseminated. These two documents set out the program and child learning standards for preschool programs. The following

program support and improvement initiatives have been derived from these standards:

- The Early Learning Improvement Consortium, formed in September 2002, is a multi-year joint project of the DOE and selected state colleges and universities to collect data on child progress and classroom quality and to provide technical assistance to districts in using these data.

- In 2002-03 to clarify the master teacher position and increase quality of curriculum and teaching, the DOE offered an intensive, rigorous year-long seminar for master teachers who in turn provide professional development in district and provider classrooms for over 4,000 teachers. Specifically, the master teacher training focused on research based best practices as delineated in the Guidelines and Expectations, and methods for assessing classroom quality to inform professional development. This seminar will be repeated for new master teachers in the 2003-2004 school year, and more advanced topics will be covered for returning master teachers.

- The DOE meets monthly with district early childhood supervisors and introduces various topics for professional development and program implementation.

- DOE district liaisons conduct technical assistance site visits at least monthly to each district.

- The SAVS process described earlier is assisting districts in meeting the program standards.