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

Department of Education
Early Childhood Education Program

July 1, 2004 to January 31, 2006
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Education, Early Childhood Education Program for the period of July 1, 2004 to January 31, 2006. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
May 17, 2006
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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 in Abbott districts for three and four-year olds (Abbott Preschool Program) for the period July 1, 2004 to January 31, 2006. Our audit included a review of the DOE’s implementation and oversight functions as they relate to the Abbott Preschool Program statewide and the distribution of state aid to Abbott districts for preschool programs as required by N.J.S.A.18A:7F-16 and the annual appropriation act. We did not audit community providers.

A total of $330 million in Early Childhood Program Aid designated for preschool and other programs was distributed to eligible school districts in each of the two fiscal years 2005 and 2006. Seventy-one percent or $233 million was received annually by the 31 Abbott districts. An additional $184 million in Abbott Preschool Expansion Aid was received by eligible Abbott districts in fiscal year 2005 and $192 million was made available in fiscal year 2006 to fund the increase in the approved budgeted preschool costs from the fiscal year 2002 base year level.

Objectives

The objectives of our audit were to determine if Early Childhood Program Aid and Abbott Preschool Expansion Aid were distributed in accordance with applicable statutes, to determine whether the Abbott Preschool Program’s fiscal and administrative operations are being properly monitored by the DOE, and whether the DOE has instituted effective follow-up procedure for the resolution of internal audit findings related to contracted providers. We also tested for resolution of the significant conditions noted in our prior report dated October 30, 2003.

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.
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 department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of state aid transactions. We also read the budget message, reviewed financial trends, and interviewed department personnel to obtain an understanding of the program and internal controls.

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

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.

We found that Early Childhood Program Aid and Abbott Preschool Expansion Aid were distributed in accordance with applicable statutes and that the DOE has improved the overall monitoring of the program’s fiscal and administrative operations. However, the DOE has not instituted effective follow-up procedures to ensure the resolution of internal audit findings related to contracted providers. This issue has been updated in our current report. We also found that the department has resolved the significant issues noted in our prior report with the exception of provider contract compliance.
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. The Comprehensive Educational Improvement and Financing Act of 1996 require districts awarded ECPA to provide full-day kindergarten and half-day preschool programs to four-year olds. For Abbott districts, the preschool requirement was expanded to full-day, full-year programs for resident three and four-year olds.

During fiscal year 2005 there were approximately 37,200 children enrolled in preschool programs in the Abbott districts. The Abbott districts used contracted community preschool providers to service approximately 25,600 of the children.
Provider Audits and Reviews

In school year 2003-2004, the approved preschool budgets for the Abbott districts totaled $408 million, of which approximately $222 million was for contracts with community providers for the educational component of the program. Budgeted costs for community providers increased to $260 million in school year 2004-2005.

Three separate offices within the DOE, which include the Office of State Operated School Districts, the Office of Compliance Investigation, and the Office of School Funding, perform audits or reviews of community preschool providers. Each engagement includes an examination of the provider’s financial records and a compliance review with some contractual terms. Common findings disclosed in reports covering the 2003-2004 and 2004-2005 school years included the improper allocation of expenses between Abbott and non-Abbott programs, personal expenses being charged to the program, no evidence that all employees had undergone Criminal History Record Information and Child Abuse Record Information background checks as required by the preschool contract, noncompliance with insurance and staffing requirements, and inaccurate quarterly expenditure reports. Corrective action plans addressing all report recommendations are required to be completed by the school district serviced by the provider.

The Office of State Operated School Districts performs audits of providers operating in Newark, Jersey City, and Paterson. Approximately 34 percent of all Abbott preschool providers are located in these three school districts. Our review of 12 audit reports issued by June 21, 2005 for the 2003-2004 school years noted that no corrective action plans were submitted. The districts are required to submit plans within 60 days of the report date. The Office of Compliance Investigation performs
reviews of providers located in the remaining 28 Abbott districts. Our review of ten reports for the 2003-2004 school year noted that three corrective action plans were not completed as required by DOE regulations. In addition, 10 of 97 recommendations were not addressed within the seven completed corrective action plans.

Formal follow-up procedures to determine the adequacy, effectiveness, and timeliness of actions taken by a district to resolve reported findings have not been established by the DOE. These procedures should provide for the timely submission of corrective action plans that address all reported findings and an evaluation to ensure effective implementation. The lack of a formal follow-up process increases the risk that findings will not be properly addressed and could subject districts and providers to additional risk resulting from litigation. In addition, it results in the inefficient utilization of department resources if conditions persist and remain uncorrected.

**Recommendation**

We recommend that the DOE develop and implement a formal follow-up process to ensure that appropriate action has been taken by districts to resolve reported findings with providers.
May 11, 2006

Mr. Richard L. Fair, State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

SUBJECT: Response to OLS Audit Report of the Department of Education, Early Childhood Education Program

The New Jersey Department of Education (DOE) has received and reviewed the finding and recommendation contained in the Office of Legislative Services (OLS) Audit Report of the Department of Education, Early Childhood Education Program for the period July 1, 2004 to January 31, 2006. The finding and recommendation on pages 4 and 5, along with our response are as follows:

Finding Number 1, Page 4

The Office of State Operated School Districts performs audits of providers operating in Newark, Jersey City, and Paterson. Approximately 34 percent of all Abbott preschool providers are located in these three school districts. Our review of 12 audit reports issued by June 21, 2005 for the 2003-2004 school years noted that no corrective action plans were submitted. The districts are required to submit plans within 60 days of the report date. The Office of Compliance Investigation performs reviews of providers located in the remaining 28 Abbott districts. Our review of 10 reports for the 2003-2004 school year noted that three corrective action plans were not completed as required by DOE regulations. In addition, 10 of 97 recommendations were not addressed within the seven completed corrective action plans.

Formal follow-up procedures to determine the adequacy, effectiveness, and timeliness of actions taken by a district to resolve reported findings have not been established by the DOE. These procedures should provide for the timely submission of corrective action plans that address all reported findings and an evaluation to ensure effective implementation.
The lack of a formal follow-up process increases the risk that findings will not be properly addressed and could subject districts and providers to additional risk resulting from litigation. In addition, it results in the inefficient utilization of department resources if conditions persist and remain uncorrected.

**Recommendation Number 1**

We recommend that the DOE develop and implement a formal follow-up process to determine if the appropriate action has been taken by districts to resolve reported findings with providers.

**Department Response to Finding Number 1**

Thank you for the opportunity to respond to the audit report of the Department of Education, Early Childhood Education Program. Although we do not question the specific finding in this report, the report glosses over two essential and imposed conditions that provide the context for the Abbott preschool program. First, Abbott districts were directed by the New Jersey Supreme Court in Abbott V to contract with any “willing” Department of Human Services licensed day-care center that would accept Abbott’s more stringent quality and oversight standards. The mandated contracts jumpstarted the Abbott preschool program by providing hundreds of classrooms in over 500 sites.

Second, the Abbott district is the contracting party, not the DOE. Again, the Court was specific in requiring each Abbott district to ensure that contracted services and standards are met.

The DOE is proud that through the hard work of many people in DOE and in the districts in implementing DOE-initiated oversight and support efforts, we have been able to give private providers the training they need in proper bookkeeping and business practices, imposing tighter rules and more clearly-written contracts, installing fiscal specialists in the districts and conducting the kinds of audits needed.

The department’s powerful focus on improving quality of the preschool education provided by the vendors has worked and worked well. No other state has been propelled into a preschool program on the scale of New Jersey’s program. The measures of quality have shown a steady, even dramatic, upward movement in the last four years.

There is more to do, of course, and we will persist with the strongest, most energetic, and certain audit review program of any public program in New Jersey. The DOE offers the following response to the specific recommendation in the report:

The department agrees that follow-up procedures set in place have not been consistently followed by districts and private providers. The department currently requires Abbott districts
to submit a corrective action plan to the Office of Early Childhood Education (OECE), signed and agreed to by the district and the provider, within 60 days. The corrective action plan must include columns for detailing an agreed-upon corrective action, completion date, person responsible, status and final outcome for each recommendation made in the report. The plans are then reviewed by Office of Early Childhood district liaisons and either accepted as is or referred back to the district for further action.

For 2006-2007, the department will take the following steps:

- The OECE will work with the Office of Compliance Investigation (OCI) to collect, review and respond to corrective action plans submitted by districts. Thereby, corrective actions will be reviewed by auditors as well as OECE staff. This process is currently in place for audits conducted by our Internal Audit Units.

- The OECE will diligently track the status of corrective action plans and correspond with district fiscal specialists, early childhood supervisors and superintendents as needed. The OECE will encourage the non-renewal of contracts for providers that have outstanding corrective action plans.

We trust that our responses satisfy the concerns raised in the audit report. Should you have any questions or need further information, please contact me at 984-5593.

Sincerely,

Ray Montgomery, Director
Office of Compliance Investigation

RM/DJ/CP/response to OLS audit of OECE

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