Trenton Board of Education
Early Childhood Education Program

July 1, 2001 to September 30, 2002
The Honorable James E. McGreevey
Governor of New Jersey

The Honorable John O. Bennett
President of the Senate

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Trenton Board of Education, Early Childhood Education Program for the period July 1, 2001 to September 30, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

January 17, 2003
Table of Contents

Scope .................................... 1
Objectives ................................. 1
Methodology ............................... 2
Conclusions ............................... 2

Findings and Recommendations

Criminal History and Child Abuse Background Checks ....................... 3
Provider Insurance Compliance ...................... 3
Provider Financial Records ........................ 4
Eligibility Records ............................ 5
Budgeting and Contracting ......................... 6
Program Funding Process ....................... 8
Trenton Board of Education
Early Childhood Education Program

**Scope**

We have completed an audit of the Trenton Board of Education (TBOE) for the period July 1, 2001 to September 30, 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 Trenton and the 29 other Abbott districts. The program was established to 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 occurs for four hours before and/or after the six-hour educational day and full-time care (10 hours) on those days when school is not in session including summer months. The Early Childhood Operational Plan approved by the state Department of Education for Trenton for the 2001-2002 school year was $9 million. The approval for the 2002-2003 year was over $19 million.

**Objectives**

The objectives of our audit were to determine whether expenditures were related to the program, were reasonable, and were recorded properly in the accounting system. 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 certified public accounting firm.

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

**Conclusions**

We found that the expenditures to providers included in our testing were related to the district’s Early Childhood Education Program, were reasonable, and were recorded properly in the accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.
Providers need to ensure that employees have criminal history and child abuse background checks.

Criminal History and Child Abuse Background Checks

We reviewed employee files at community based providers for evidence that employees had undergone a Criminal History Record Information (CHRI) background check as required by the Abbott preschool contract and state statute. We also reviewed files for the Child Abuse Record Information (CARI) background check as required by the state administrative code. Our review of six providers found that 37 of 92 employee files contained no evidence of a CHRI and 11 of 90 files lacked evidence of the CARI. This situation is a result of provider non-compliance and insufficient monitoring. This condition could result in potential liability to the provider and the school district.

Recommendation

Providers need to ensure that all employees have received the CHRI and the CARI background checks, and the district should monitor the providers for compliance.

Auditee’s Response

The district agrees that providers need to ensure that all employees have received the CHRI and the CARI background checks. The district is seeking funding from the New Jersey Department of Education to enable us to be able to monitor providers for compliance.

Provider Insurance Compliance

The Abbott preschool contracts require providers to meet certain general liability, automobile liability, and employers liability insurance limits. The policy shall also name the Trenton Board of Education as an additional insured. Our review found that three of six providers were not in compliance with the contractual insurance requirements. The district did obtain insurance certificates from the providers during enrollment but did not enforce compliance.
requirements. This could subject the district to additional risk resulting from litigation.

**Recommendation**

The school district should monitor the providers for insurance compliance.

**Auditee’s Response**

The district agrees that we should monitor providers for insurance compliance. The district is seeking funding from the New Jersey Department of Education to enable us to be able to monitor providers for compliance.

---

**Provider Financial Records**

Provider financial records should support program cost.

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

Personnel cost was a major component of program costs for the five providers reviewed. Despite this, staff salaries for Abbott classes were not prorated for the 180 six-hour days of educational services, and 245 days of wrap-around time. There was no formal documentation of staff assignments and hours worked to allow for this proration. Informal staff lists were prepared for us based on the providers recollection during our field work.

Costs for Abbott students were blended with those for other programs. As a result, the providers could not determine the amount of expenses relating to a specific program. Our meetings with center directors indicated they are aware of the need to segregate Abbott costs starting in school year 2002-2003. Providers did not present supporting documentation for 19 of 104 of the sample expenditure items. In one case a provider’s personal expenditures were processed through the program operating accounts.
Currently there are no state approved procedures for the district to ensure the fiscal accountability of the providers. There is no monitoring to ensure that provider expenditures are appropriate and commensurate with program goals. The district has recognized this need and intends to hire a budget specialist for the ensuing school year who will act as a liaison with the community providers on financial aspects of the program.

**Recommendation**

Procedures need to be developed 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 maintained and available for inspection by the district and other necessary parties. Expenses that are not program related should not be charged to the program.

**Auditee’s Response**

The district agrees with the recommendation as to how provider financial record should be maintained. The district is seeking funding from the New Jersey Department of Education to enable us to develop audit procedures to ensure provider compliance and fiscal accountability relating to contractual and financial record-keeping requirements. The district also feels that the state should adopt regulations that apply to community providers statewide rather than make this the responsibility of individual school districts.

**Eligibility Records**

The 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 includes 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, 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 these 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 district monitor and enforce the retention of the records by the providers so that program eligibility can be independently verified and/or maintain copies of eligibility records.

**Auditee’s Response**

The district agrees with the recommendation. The district is seeking funding from the New Jersey Department of Education to better enable us to monitor providers’ retention of records.

---

**Budgeting and Contracting**

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 education program meeting Abbott quality standards. It is the district’s responsibility to ensure the costs in the provider budgets are reasonable and appropriate based upon a
needs-based analysis. These budgets are submitted to the state Department of Education as part of the district’s yearly operational plan.

Our review of six school year 2002/2003 budgets and interviews with community providers indicated disagreement between the contract amounts awarded and those substantiated by the supporting schedules. In some cases, line item amounts were put into the provider budgets for which there was no cost to the provider, while other line item amounts awarded seemed excessive. Based upon our analysis and review, it appears the district created a funding matrix and rated the providers to fall within established parameters. They determined the amount to award and then adjusted the budget rather than using the budget itself to determine the award.

**Recommendation**

We recommend the district award contracts to community providers based solely on actual expected expenditures and not award line-item amounts without substantive analysis and supporting documentation. We also recommend future negotiations with providers be concluded before the yearly operational plan and funding request is submitted to the state Department of Education.

**Auditee’s Response**

The district agrees with the portion of the recommendation concerning provider budget development based upon actual expected expenditures and plans to adhere to the newly developed New Jersey Department of Education provider budget development process and requirements. Currently, the New Jersey Department of Education Early Childhood Program approval process does not permit us to conclude contractual negotiations with providers before the operational plan and district funding requests are submitted to that department.
The Early Childhood Education Program was overfunded by $2.4 million.

Program Funding Process

The district’s school year 2002-2003 Operational Plan was approved by the state Department of Education (DOE) in the amount of $19,944,194. The major component of this funding was for contracted services in the amount of $14,390,695. The district subsequently contracted with providers for $12,935,050 resulting in excess funds of $1,455,645. This occurred because contracts with providers were finalized several months after the plan was required to be submitted. The amount was reviewed by DOE and the award was reduced by $782,550 from $19.9 million to $19.1 million. We believe the entire $1,455,645 to be excess funds.

Among the many itemized costs included in the Operational Plan was $947,700 for wrap-around care. The district projected this cost in its budget because the services, typically funded by the state Department of Human Services (DHS), could not be guaranteed at the time the budget was submitted. Our audit disclosed DHS will fund this service; therefore, the $947,700 awarded also represents excess funding. In summary, based upon our review of the district’s approved operational plan versus projected costs, it appears the district has been overfunded by approximately $2.4 million, of which $782,550 has already been reclaimed by DOE.

Recommendation

We recommend the funding be revised based on the actual contracted services to reflect the amount necessary to fund the Early Childhood Education Program.

Auditee’s Response

The district agrees that funding should be revised to reflect the actual amount necessary to fund the Early Childhood Education Program. In this regard the district agrees that the $947,700 adjustment for wrap-around care is appropriate since wrap-around services are being funded by the Department of Human Services. The district also agrees that the $782,550 adjustment amount reviewed by the New
Jersey Department of Education is appropriate since it was able to negotiate contracts with community providers for a lesser amount than the state was willing to fund us. The district plans to carefully review its records and the plan originally approved by the New Jersey Department of Education to determine if there is merit to the auditors’ findings concerning the differential amount of $673,095.