City of Millville Board of Education
Early Childhood Education Program

September 1, 2000 to June 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 City of Millville Board of Education, Early Childhood Education Program for the period September 1, 2000 to June 30, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

December 12, 2002
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Funding Process</td>
<td>3</td>
</tr>
<tr>
<td>Provider Financial Records</td>
<td>5</td>
</tr>
</tbody>
</table>
City of Millville Board of Education  
Early Childhood Education Program

Scope

We have completed an audit of the City of Millville Board of Education for the period September 1, 2000 to June 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 Millville and the 29 other Abbott districts. The district is responsible for ensuring that each three and four year old has the opportunity to receive a quality education. The district has contracted with Department of Human Services licensed day-care providers for comprehensive educational services. Total payments to the community providers for the audit period were $1.1 million. The enrollment was 175 students as of June 30, 2002.

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 systems. 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, circular letters promulgated by the State Comptroller, 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 message and minutes of the board, reviewed financial trends, and interviewed agency
personnel to obtain an understanding of the programs and the internal controls. 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 included in our testing were related to the district’s Early Childhood Education Program, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

We also identified concerns in the funding process and overall monitoring of the program which may have statewide implications. These issues will be addressed in an audit of the program at the state Department of Education level.
The funding process should assess community and provider needs.

The impetus of the Early Childhood Education Program was the result of various decisions relating to Abbott v. Burke (Abbott). These decisions resulted in N.J.A.C. 6A:24-3.3 which required that full-day, full-year early childhood education be made available to three and four-year-old children by the 2001-2002 school year. The program is divided into two components consisting of 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 required to utilize existing early childhood programs and Department of Human Services licensed day-care programs in the community where feasible. The Early Childhood Education Program also had to be adequately funded based on the demonstrated need of the community and the providers. Funding should be unique to each provider and supported by zero-based budgets reflecting the actual cost of delivering early childhood education. Providers may only charge the state the actual costs associated with the program and profit is not an allowable expense.

In addition, the Office of Administrative Law (OAL) in Abbott Global Issues OAL Dkt. No. EDU3246-01, dated April 20, 2001, concluded “... districts are required to conduct reasonable evaluations, reviews and assessments of themselves, their preschool children and their providers’ circumstances and to use these as aids in formulating plans for the implementation of Abbott preschool. These must be made available to the DOE [Department of Education] so that it too can, as it must, conduct reasonable reviews and assessments of the districts’ actions. In addition . . . the DOE must issue clear guidelines and standards to districts concerning the information that it requires to understand, evaluate and ultimately decide upon the adequacy of their plans, requested funding and plan implementation.”
The City of Millville Board of Education has been requesting funding through its annual operational plans without properly assessing needs and circumstances of the providers.

The district has had a half-day Early Childhood Education Program for approximately thirty years for four year olds. The program was expanded to include three-year olds during school year 1999 - 2000. The district requested funding and negotiated with community providers for a three hour day of comprehensive education at a contracted rate of $3,000 per pupil in school year 2000-2001. The district paid the providers $390,000 without ever obtaining their budgets or performing the required needs assessments.

The 2001-2002 operational plan requested funding for the full-day, full-year Early Childhood Education Program. The district negotiated with community providers for a contracted rate of $4,500 per pupil for educational services. The district paid providers without ever obtaining their budgets or performing the required financial needs assessments. District personnel believed that the negotiated single fee-for-service amount was sufficient and did not warrant the review of provider budgets or performing provider needs assessments. In addition, the Department of Education (DOE) did not provide timely and sufficient guidance. Instead, the DOE allowed the district to negotiate a per pupil amount with providers for the education component. The district paid each of the five providers the same rate during the school year, totaling $700,000 as of June 30, 2002.
The 2002-2003 operational plan requested funding for community providers at a per pupil rate of $4,680 per provider. Approximately $1 million was budgeted for this purpose. Providers’ budgets ranged from $5,027 to $20,614 for the education component. Again, the district did not assess providers’ financial needs prior to requesting funding because it planned to negotiate with providers based on the amount of approved funding from the DOE and pay a single fee-for-service amount to all community providers.

**Recommendation**

We recommend the district obtain and analyze the providers’ budgets and properly assess the financial needs of the providers prior to developing the district’s operational plans requesting funding for the Early Childhood Education Program. The analyses should ensure that providers are not funded below or in excess of the costs of delivering the necessary services.

**Provider Financial Records**

Contractual provisions required that financial records of providers be maintained in accordance with Generally Accepted Accounting Principles (GAAP) and be made available for inspection by the district, the state, and their designee. The financial records of the two providers tested were not maintained in accordance with GAAP. The financial systems maintained by the providers did not provide accurate, current, and complete disclosure of all financial activity and conditions relating to the program.

Personnel cost was a major component of program cost for all the providers. Despite this, staff salaries of the two providers tested were not prorated for the 180 six-hour days of educational services and the 245 days of wraparound services. Because staff
assignments were not documented, we were forced to rely on the directors’ recollections. Providers did not isolate the hours worked for the education component from those worked for the wraparound component. Any staff member could have been assigned to perform the wraparound (daycare) function since it did not require a certified teacher or the 15 student class size limitations. Abbott and non-Abbott students were mixed during the before and after school care and during the summer. Administrative salaries were similarly not allocated based on the proportional time spent on school district children and/or number of children served. Supporting documentation was also not maintained because providers said they were not aware that it was needed.

Other non-personnel expenses were not recorded by program and/or allocated based on the proportion of district students. Cost allocation plans were not developed to allocate cost among private students and school district students.

We could not determine the correctness of the amounts paid and/or the purpose of the payments in various instances because one of the two providers tested did not maintain adequate support documentation. Some payments were not supported by a bill or invoice. Credit card payments were routinely made against outstanding balances without purchase receipts documentation. Reimbursements were made to owners and staff without receipted bills. Payments were also made to non-staff individuals with no written contracts. We also identified expenses that were not program related which included payments for back taxes not related to the program, donations to churches, as well as personal expenses.

In addition, account extensions in cash disbursements and/or expense ledgers for both providers tested were not in accordance with budgeted categories. Budgets submitted to the
district were not considered by providers to be related to their operations. Budgets had no support documentation and were merely “wish lists”.

As a result of all of the conditions noted above, providers were unable to determine the amount of expenses relating to the program.

**Recommendations**

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 and the allocated indirect expenses relating to the 180 six-hour days of educational services. Expenses and budgets 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.