City of Vineland Board of Education
Early Childhood Education Program

September 1, 2000 to June 30, 2002

Richard L. Fair
State Auditor
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 Vineland 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.

October 24, 2002
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City of Vineland Board of Education  
Early Childhood Education Program

Scope

We have completed an audit of the City of Vineland 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 Vineland and the other 29 Abbott districts. The district is responsible for ensuring that each three and four year old has the opportunity to receive a quality education. It has contracted with Department of Human Services licensed day-care providers for comprehensive educational services. Total expenditures to the community providers for the audit period were $6.6 million. The enrollment was 792 students at 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 district 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 expenditure transactions 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 board’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.
Funding Process

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 wrap around (basic day care) per day for the 180 day school year, and 65 ten hour days of wrap around in the summer months. School districts are required to utilize existing early childhood programs where feasible and Department of Human Services licensed day-care programs in the community. 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 Re: 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 Vineland Board of Education has been requesting funding through its annual operational plans without properly assessing needs and circumstances of the providers.

The 2000-2001 operational plan requested funding for the program at a contracted rate of $4,120 per student which the district negotiated with community providers. Due to early implementation of the full day program in January 2001, provider contracts were amended to a six-hour day of comprehensive education without a change in the contract rate. The district paid the providers $3 million without ever obtaining their budgets or performing the required needs assessments.

The 2001-2002 operational plan requested funding for full-day, full-year early childhood education and included budgets from 11 of 12 community providers ranging from $2,844 to $4,738 per student for the education component. However, the district neither reviewed the budgets for accuracy nor used them as a means to develop per pupil amounts based on the financial needs of individual providers. This occurred because the DOE Division of Early Childhood Education did not provide timely and sufficient guidance. Instead, the DOE allowed the district to negotiate a per pupil amount of $4,590 with providers for the education component. The district paid each of the 12 community providers the same rate during the school year 2001-2002, totaling $3.6 million. Because of this funding process, seven providers were paid approximately $215,000 more than their budgeted cost of delivering the service.

The 2002-2003 operational plan requested funding for community providers at a rate of
$6,900 per student. Providers’ budgets ranged from $5,213 to $9,310 for the education component. Again, the district did not assess providers’ financial needs prior to requesting funding. The district is currently in the process of performing the required needs assessments and negotiating with providers based on the amount of approved funding from the DOE.

Although school year 2001-2002 was the first year of mandated full-day, full-year early childhood education for the district, we see a developing pattern of negotiated contract increases and escalating cost estimates from providers. The per pupil cost increased 11 percent from school year 2000-2001 to school year 2001-2002 and increased 50 percent from school year 2001-2002 to 2002-2003 as shown in the chart below.
The costs are anticipated to increase further as the providers’ teachers obtain the required certifications. The various Abbott rulings and guidelines promulgated by DOE indicated that each provider would be paid based on individual financial need and fostered the expectation by community providers that they will receive increased funding each year to pay for all costs for early childhood education. These expectations are particularly troubling during a time in which budget concerns heightened at the state and municipal level.

Under the current funding methodology, there are no incentives for the providers to control costs. The district will be paying different rates to different providers for essentially the same service starting in school year 2002-2003. Those who are more needy or who can successfully inflate costs will be paid more per student while those who run their businesses efficiently will receive less. For example, two of five providers we visited were constructing new facilities. This could significantly impact future costs since the new facilities will be used by district students and mortgage expenses will be passed on to the program. Although some facility expansion is expected based on increased enrollment,
construction by providers without increased enrollment only serves to increase the per student cost. The district’s operational plan showed only a two student increase from 792 students assigned to community providers in school year 2001-2002 to 794 students in school year 2002-2003. Since the district has the ability to add classroom units to house increased enrollment, they need to develop needs assessment and monitoring processes to ensure that program costs remain reasonable. Such construction would be governed by the Education Facilities Construction and Financing Act (EFCFA).

**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 in excess of the costs of delivering the necessary services, and should ensure that any facility expansion is based on increased enrollment and is subject to EFCFA.

**Auditee’s Response**

As directed by the Department of Education, the district has obtained and analyzed the provider’s budgets to properly assess the financial needs of each of the providers to determine the required funding for each individual provider for the 2002-2003 school year. Unfortunately, due to the Department of Education timeliness and process, to accomplish this task before submission of the District’s Operational Plan request for funding of the Early Childhood Education Program was just not possible. During the preparation of the 2003-2004 school year provider budgets, the district will actively involve the providers in the development process. Building construction that was undertaken by the providers was through the use of State issued Bright Beginnings Grants. The Education Facilities
Construction and Financing Act (EFCFA) would govern any future construction of the district’s non-profit providers.

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**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/or their designee. The financial records of four of five community 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. Instead, financial statements of providers were maintained on a “cash” or other basis and, in one instance, no formal financial statements were maintained. One provider gave us two sets of financial statements and records, one maintained in the office and the other maintained at the owners’ home. However, the owners indicated that both were incorrect due to different posting cutoff dates, posting errors, and software problems. One of these sets of financial statements indicated that the provider was operating at a deficit, which was denied by the owner. There were instances where financial transactions were improperly posted. For example, the $3,000 monthly withdrawals of owners’ capital were posted as other expenses. In another instance, there were portions of payroll tax liabilities posted to other segments of the business.

Personnel cost was a major component of program cost for all the providers. Despite this, staff salaries were not prorated for the 180 six-hour days of educational services and the 245 days of wrap around services. Because staff assignments were not documented, we were forced to rely on the directors’ recollections. Even when two of the providers made some distinction in their records between Abbott
staff and other staff, they did not isolate the hours worked for the education component from those worked for the wrap around component. Any staff member could have been assigned to perform the wrap around (daycare) function since it did not require a certified teacher or the 15 student class size limitations. 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 the program and/or the proportion of school district children to the total number of children served. Additionally, supporting documentation was 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 two of the five providers did not maintain adequate support documentation for expenses. 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 made to individuals for services rendered when they were not on the payroll and there were no written contracts. We also noted unsupported payments made to “cash.”

We also identified expenses that were not program related which included charges related to other programs, payments for back taxes, donations to churches, civic and miscellaneous organizations, as well as, personal expenses. In addition, account extensions in cash disbursements and/or expense ledgers 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.

**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 and the allocation of 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.

**Auditee’s Response**

The 2001-2002 provider contract clearly required that “The Provider shall maintain a financial management system that, at all times, provides for accurate, current and complete disclosure of all financial activities related to the Agreement, in accordance with Generally Accepted Accounting Principles (GAAP).” In the 2002-2003 contract the district added the provision that “The Provider shall separate all funds clearly delineating district funds, DHS Abbot funds, and other sources of revenue, as well as all center expenditures.” In order to accomplish these provisions, the district will assist the providers in placing into service a uniform accounting system to meet these contractual requirements. Furthermore, the district will engage the services of a Certified Public Accounting firm to audit the providers to ensure compliance with these provisions.