



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report-Issued May 8, 2012

Department of Early Education and Care

For the period July 1, 2010 through June 30, 2011



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The Department of Early Education and Care (EEC), established by Chapter 15D of the Massachusetts General Laws, is responsible for the licensing of early education and care programs, and for providing the following: financial assistance for child care services to low-income families, information and referral services, parenting support for families, and professional development opportunities for staff in the early education and care field. These services are administered through five regional offices. During fiscal year 2011, EEC administered approximately \$548 million, of which federal funds totaled approximately \$423.7 million.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of EEC in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2011. We have concluded that for the period July 1, 2010 through June 30, 2011, EEC had adequate internal controls in place and complied with the requirements of the federal Department of Health and Human Services; the Office of Management and Budget (OMB) Circular A-133 and the Compliance Supplement; and other applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED – INTERNAL CONTROLS OVER ACCOUNTS RECEIVABLE

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Our prior audit report disclosed that the EEC continued to credit recoupments of ineligible expenses to the Commonwealth's General Fund as part of its accounts receivable process without re-obligating funds back to EEC's federal awards or making the appropriate repayment to the United States Department of Health and Human Services, Administration for Children and Families (ACF), where applicable.

Our follow-up audit found that, working with the Office of the State Comptroller (OSC) and members of the ACF Boston office, the EEC has taken the necessary action to implement an accounts receivable resolution. Beginning in May 2011, EEC implemented its procedures in its April 2011 expenditure tracking sheet to credit the appropriate accounts for the recoupment of ineligible federal expenditures totaling \$605,515 for the period July 1, 2009 through April 2011.

Moving forward, EEC plans to account for recoupments at least quarterly; however, EEC has made monthly entries for credits of \$14,350 and \$8,170 for May and June 2011, respectively.

INTRODUCTION

Background

The Department of Early Education and Care (EEC), established by Chapter 15D, Section 2, of the Massachusetts General Laws, serves as the lead state education agency for the administration of public and private early education and care programs and services under federal laws. EEC's mission is to ensure that Massachusetts children and families are helped to reach their full potential by providing and coordinating a range of services and assistance to continuously improve the quality, affordability, and accessibility of early education and care. EEC is responsible for seeking, applying for, and encouraging the use of federal funds for early education and care services, and facilitates the coordination of federal, state, and local policies concerning early education and care.

In February 2008, the Massachusetts Legislature created an Executive Office of Education (EOE) to oversee the Commonwealth's three education agencies: (1) the EEC, (2) the Department of Elementary and Secondary Education (ESE), and (3) the Department of Higher Education (DHE). Governor Patrick proposed this new Secretariat to encourage coordination and seamless delivery of education from birth through higher education and beyond. In support of this new vision, Governor Patrick submitted his education agenda, *The New Promise of Public Education*, in June 2008. With the creation of EOE and within the context of the Governor's proposal to revolutionize the Commonwealth's public education system, EEC, which oversees a family's first point of entry into the Commonwealth's education system, now serves as an integral part of the overall continuum of education in the Commonwealth by providing the foundation for children's healthy development and learning.

In its important and vital role as the entry point to the public education system, EEC reports directly to EOE and is overseen by an 11-member Board of Early Education and Care (Board). In recognition of this role, the Legislature and the Governor have ensured that the Board, which is responsible for, among other things, the oversight and supervision of the administration of a high-quality system of public and private early education and care, contains a dynamic and diverse membership of individuals representing key stakeholders in the field of early education and care.

EEC is responsible for the licensing of early education and care services and issues licenses through its five regional offices (Lawrence, Quincy, Springfield, Taunton, and Worcester) to providers

throughout the Commonwealth. In addition, EEC provides financial information and referral services, parenting support to families, and professional development opportunities for employees in the early education and child care field of work.

In fiscal year 2011, EEC administered approximately \$548 million; \$423.7 million represented federal funds that included \$203.6 million in a suballocation from the Department of Transitional Assistance, \$76.4 million of which was used by the Child Care Resource and Referral (CCR&R) agencies to provide childcare services to eligible families in the Temporary Assistance for Needy Families (TANF) program. EEC fiscal year 2011 federal fund expenditures also included approximately \$195 million in Child Care & Development Fund (CCDF) grants. Additionally, EEC expended \$15.7 million in supplemental Child Care Discretionary Fund (CFDA 93.713) grant awards available as a result of a fiscal year 2009 appropriation from the American Recovery and Reinvestment Act (ARRA). EEC, acting as the pass-through entity, disbursed a majority of these federal funds to contracted child care providers and CCR&R agencies (subrecipients) for early education and child care services. We noted that EEC had contracts with approximately 202 child care providers and 10 CCR&Rs.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of EEC for the period July 1, 2010 through June 30, 2011. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2011. The Commonwealth's Fiscal Year 2011 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- [Office of Management and Budget] OMB Circular A-133 Report

The audit results contained in this report are also reported in the Fiscal Year 2011 Single Audit of the Commonwealth of Massachusetts, OMB Circular A-133 report, as mentioned above.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient,

appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was also conducted in accordance with standards set forth in OMB Circular A-133 and the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our audit evaluated EEC's compliance with Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our audit of EEC's activities, we referred to OMB Circular A-133, the March 2011 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon our audit, we determined requirements applicable to the Child Care Mandatory and Matching Funds of Child Care Development Funds and Child Care Development Block Grant (Discretionary) programs, and designed appropriate tests to determine EEC's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at EEC during the review period.
- Assess and evaluate the program for compliance with the requirements of the Compliance Supplement, the federal Department of Health and Human Services, and the OSC.
- Determine the status of prior audit results (No. 2011-0837-16S).

The criteria for our review were drawn from OMB Circular A-133, the June 2011 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria addressed EEC administration and operation of the programs tested above for compliance with laws and regulations governing:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Davis-Bacon Act
- Eligibility

- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement, Suspension, and Debarment
- Program Income
- Real Property Acquisition and Relocation Assistance
- Reporting
- Special Tests and Provisions
- Subrecipient Monitoring

We examined, on a test basis, evidence about EEC's compliance with the applicable requirements and performed other procedures as we considered necessary. Based on these tests, we have concluded that for the period July 1, 2010 through June 30, 2011, EEC had adequate internal controls in place and complied with the requirements of the federal Department of Health and Human Services; the OMB Circular A-133 and the Compliance Supplement; and other applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS**1. PRIOR AUDIT RESULTS RESOLVED – INTERNAL CONTROLS OVER ACCOUNTS RECEIVABLE**

Our prior audit report disclosed that the Department of Early Education and Care (EEC) continued to credit recoupments of ineligible expenses to the Commonwealth's General Fund as part of its accounts receivable process without re-obligating funds back to EEC's federal awards or making the appropriate repayment to the United States Department of Health and Human Services, Administration for Children and Families (ACF), where applicable. Child Care & Development Fund (CCDF) regulations (Title 45 Code of Federal Regulations (CFR) Section 98.60, Availability of Funds) allow grantees to re-obligate certain un-liquidated or recouped funds within the applicable obligation period; however, if funds are recouped after the end of the applicable obligation period, they must be returned to the federal government.

Our follow-up audit found that, working with the Office of the State Comptroller (OSC) and members of the ACF Boston office, the EEC has taken the necessary action to implement an accounts receivable resolution. Beginning in May 2011, EEC implemented its procedures in its April 2011 expenditure tracking sheet to credit the appropriate accounts for the recoupment of ineligible federal expenditures totaling \$605,515 for the period July 1, 2009 through April 2011.

Moving forward, EEC plans to account for recoupments at least quarterly; however, EEC has made monthly entries for credits of \$14,350 and \$8,170 for May and June 2011, respectively. As of June 30, 2011, EEC's accounts receivable balance was \$883,961.