

NC PRE-KINDERGARTEN PROGRAM

State Authorization: Session Law 2013-360 Section 12 B.1. (a)
Session Law 2017-57 Section 11 B.1. (a) & (f)

**N. C. Department of Health and Human Services
Division of Child Development and Early Education**

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“N. C. DHHS Confirmation Reports:

SFY 2019 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCO’s), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address: <https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports>.

At this site, click on the link entitled **“Audit Confirmation Reports (State Fiscal Year 2018-2019)”**. Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from the DHHS are found at the same website except select **“Non-Governmental Audit Confirmation Reports (State Fiscal Years 2017-2019)”**

The Auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the Auditor should be prepared to justify departures from the suggested procedures. The Auditor can consider the Supplement a “safe harbor” for identification of compliance requirements to be tested if the Auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

I. PROGRAM OBJECTIVES

The objective of the North Carolina Pre-Kindergarten Program is to develop and implement a voluntary pre-kindergarten program that provides high quality pre-kindergarten services in order to enhance kindergarten readiness for the at-risk four-year-old. State legislation (Session Law 2013-360 Section 12. B.1. (a) and (Session Law 2015-241 Section 12.B.6) authorizes the Department of Health and Human Services (DHHS) to continue the NC Pre-K Program for four-year-old children in North Carolina to ensure that eligible children have the opportunity to succeed in kindergarten and throughout school.

II. PROGRAM CONTRACT PROCEDURES

DCDEE NC Pre-K contracts are designated as Financial Assistance contracts. Annual allocations are made for each county. The County/Region NC Pre-K Committee selects a contractor to operate the NC Pre-K Program in each county. This contractor must submit a plan via the NC Pre-K on-line system for approval before a contract is approved and executed. This plan follows all the criteria of the Program and Guidance Manual and can be found on the DCDEE web page (<http://ncchildcare.nc.gov>). The program contractor must follow all the requirements in the *NC Pre-K Program Fiscal and Contract Manual* also found on the above website.

Contracts for approximately 29,509 children to be served statewide were executed in SFY 18-19.

NC Pre-K funds also may be subcontracted by the contractor to other public and private agencies to purchase services as outlined in the approved plan. Activities to be performed by the subcontractor are outlined in contract with the NC Pre-K Program. The contractor will also have a separate contract with each subcontractor as applicable and these subcontracts are purchase of service rather than financial assistance contracts.

NC Pre-K: A Comprehensive Approach

NC Pre-K Program participation is voluntary for eligible four-year-olds who are at-risk for school failure. Legislation specifies that the program establish eligibility criteria, prioritize services to children who are at risk, build on the existing service delivery system, and set program standards. NC Pre-K funds services for eligible children in counties based on need and capacity to serve the eligible client group.

The NC Pre-K Program requires that each county/region maintain a local Committee that oversees the local program (both programmatic and fiscal). This Committee is to be chaired by the Superintendent of schools or designee and the chair of the local Partnership for Children (Smart Start) or designee. The local Committee designates a local Contracting Agency that is constituted to receive funding allocations to serve children in local classrooms through subcontracts, if applicable.

Eligibility for the program is based on age (age 4 by August 31 of the service year), income level, and other specified risk factors as defined in the Program Requirements.

Priority of service is described under Section 3. **Child Eligibility** (page 3-1) of the 2018-2019 NC Pre-K Program Requirements and Guidance Manual.

The initiative is designed to take advantage of and build on the diversity of service providers currently serving families with young children in North Carolina. NC Pre-K classrooms may be provided in public schools, Head Start programs, and community-based child care centers (both for profit and not-for profit) that meet program requirements.

The NC Pre-K Program is designed to provide high-quality educational experiences to enhance school readiness for eligible four-year-old children. The program requirements are built on the premise that to be successful academically in school, children need to be prepared in all five of the developmental domains outlined by the National Education Goals Panel and the *North Carolina Foundations for Early Learning and Development*. Each of these domains is critical to children's well-being and for their success in reading

and math as they begin school. The five domains, as reflected in the *NC Foundations for Early Learning and Development* standards are:

(i) Approaches to play and learning; (ii) Emotional and social development; (iii) Health and physical development; (iv) Language development and communication; and (v) Cognitive development.

Program standards include: (i) maximum class size of 18, with a qualified teacher and a teacher assistant, (ii) teachers with NC Birth-through-Kindergarten (BK) or Preschool Add-on or Lateral Entry BK licensure (iii) use of recommended research-based pre-k curricula, (iv) formative assessments, (v) early learning standards, developmental screening, and (vi) a minimum of 6.5 hours per day for 10 months (36 weeks) of instructional days per school calendar year.

Monitoring

Each NC Pre-K program contractor will be expected to comply with any reporting requirements by DCDEE. Ongoing support and monitoring for consistency with program guidelines will be provided by DCDEE.

III. COMPLIANCE REQUIREMENTS

1. ACTIVITIES ALLOWED OR UNALLOWED

Services provided under the NC Pre-K contracts should be consistent with those defined in the approved county/region plan and should meet specific requirements outlined in the *Program Requirements* and Guidance Manual which include:

A. Staff to child ratio and class size

- A NC Pre-K Classroom will not exceed a maximum staff to child ratio of 1 to 9 with a maximum class size of 18 children.

B. Facility requirements

All Public and specified non-public school programs qualify to receive NC Pre-K funds to provide high-quality pre-kindergarten classrooms.

Programs serving NC Pre-K children shall maintain a four or five-star rated license per NC Child Care Rule **10A NCAC 09 .3002 FACILITY REQUIREMENTS.**

- For new centers, a temporary license will be issued for six months with the expectation of the program achieving a four or five-star license at the end of the temporary time period.
- Head Start programs operated by non-profit organizations and all private non-profit and for-profit centers must meet NC DCDEE regulatory standards and maintain a 4 or 5- star license.

Initial screening and assessment of enrolled children

- **Health Assessments** are required of children entering the NC Pre-K Program in accordance with the following provisions:
 - The health assessment must be in place on the first day of attendance. If it is not in place, the family/parent is given written notice to:
 - Have the assessment completed within 30 calendar days of the notice date, or
 - Request parent/family to provide written evidence within 30 days of a date that the child has been scheduled for the health assessment.
 - If the assessment is not completed within 30 calendar days, or an appointment has not been made or has not been kept for the child's health assessment, the parent/family should be notified by the contract administrator that the child will lose their NC Pre-K placement, and the slot will be filled by another eligible child with the appropriate health assessment, unless there are extenuating circumstances.
- **Developmental Screening** – All children enrolled in NC Pre-K Program must receive a developmental screening using an approved screening instrument, unless the child has an existing Individualized Education Program (IEP). Children must be screened within 90 days after the first day of attendance in the program or within 6 months prior to the first day of attendance.

C. Instructional Component

- Use approved curriculum specified in the county/region plan for student instruction.
- Determine that lead classroom teacher has been approved by the NC DCDEE to act in that capacity.

Suggested Audit Procedures

1. Review the NC Pre-K Program Requirements and Guidance Manual to determine specific program requirements.
2. Determine that specific program standards were met in locally approved programs. Acceptable documentation/verifications for specified program standards are as follows:
 - a. **Staff to child ratio and class size** (enrollment, classroom attendance records)
 - b. **Facility requirements**
 1. NC Division of Child Development and Early Education facility requirements for a 4- or 5- star-rated license (copy of current facility license).
2. **Initial screening and assessment** for enrolled children:

- a. Health Assessments (log of assessment dates or written documentation of appointment and a copy of each child's assessment)
- b. Developmental Screen (log of assessment dates and copy of cover sheet of each child's assessment)

3. Instructional component

- a. Curriculum (as specified in the county/region plan). Review copy of approved NC Pre-K Plan (on-line version acceptable).

2. ALLOWABLE COSTS/COST PRINCIPLES

Compliance Requirements

In the NC Pre-K Program there are three types of funds: Administrative, Direct Services and Start-up funds (Not Applicable in 2019). Under a Financial Assistance contract, all Pre-K funds will be budgeted by expenditure category. Direct services funds are NC Pre-K funds paid to the Contractor for serving children in NC Pre-K classrooms. Direct services funds that a Contractor receives must be passed to NC Pre-K providers for payment of direct services to children. Administrative funds are approximately 4% or a minimum of \$20,000 of the Contractor's initial total allocation. Administrative funds are used to support costs at the Contractor level, such as staff salaries, benefits, staff travel, training, equipment, and/or other administrative costs related to administering the NC Pre-K program. Effective February 1, 2018, for SFY 17-18, unspent NC Pre-K direct service funds may be used, if approved, to build and/or sustain capacity in preparation for maintaining current services and/or to increase service capacity to serve more eligible children. To allow contractors up to 6% for administrative costs, the amount used may not exceed 2% of the contractor's allocation. This 2%, when combined with contractors' current 4% administrative allocations, will allow for a maximum of 6% for NC Pre-K program administration. In addition, contracting agencies may receive an additional 2% of Child Care Development Fund (CCDF) funds in the NC Pre-K administrative budget for defined quality activities and services. See the Fiscal and Contract Manual for the NC Pre-K Program, Section III. Pre-K Allocations, Allowable Uses of Pre-K Funds, and Children Served, B. Types of Pre-K Funds Allocated and Allowable Uses.

All non-consumable items purchased with NC Pre-K funds must remain with the NC Pre-K Program. Non-consumable items are defined as tangible products that can be stored or inventoried and have an average life expectancy of at least two years. Non-consumables must be accounted for and movable from the time a site/classroom joins the NC Pre-K Program. When a classroom terminates, all non-consumable items must be redistributed to other NC Pre-K classrooms.

In addition to the above types of funds, NC Pre-K programs are required to certify that they have accessed other resources to support the NC Pre-K Program. The certified other resources are reported to DCDEE annually and should represent up to 5 months of actual expenditures. These expenditures, listed by funding source, represent the amount of cash (not in-kind) that has been spent July 1 through November 30 from other sources to support the NC Pre-K Program. The Contractor must submit an *Other Resources Certification*

Statement to DCDEE no later than January 15 and is required to have full documentation of the resources.

Indirect cost charges are not allowed. However, allocation of direct costs may be allowed if there is a cost allocation plan in place.

Audit Objectives – Determine whether:

- **Pre-K funds agree with the amount recorded at DHHS and are expended as allowed.**

Expenditures for allocated NC Pre-K Direct Services funds were passed to Pre-K providers for serving eligible children.

Expenditures for allocated NC Pre-K Administrative funds were for costs related to the NC Pre-K program.

Expenditures of allocated NC Pre-K Start-up funds were for allowable costs. If Start-up funds were not used, determine if they were returned to DCDEE.

Check to see if all equipment that was purchased with Pre-K funds has been tagged and included in their inventory.

Suggested Audit Procedures

Test a sample of transactions for compliance with the following criteria:

1. Allowable cost provisions of or limitations in the program contract, program regulations, or fiscal manual.
2. Charges for actual costs, not budgeted or projected amounts.
3. Calculated in conformity with generally accepted accounting principles or another comprehensive basis of accounting when required.
4. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, inventory, time and attendance records, and correctly charged as to account, amount, and period. Documentation may be in an electronic form.

3. CASH MANAGEMENT

Compliance Requirements – The NC Pre-K Program provides payment for services rendered based on a Financial Status Report (FSR) and supporting documentation (classroom attendance reports for each classroom and a summary of attendance report). Administrative and start-up expenditures are also requested on the monthly FSR. All final NC Pre-K FSRs are due to DCDEE by June 10 of the current State Fiscal Year (SFY). Any unexpended NC Pre-K contract funds from DCDEE contractors are reverted to DCDEE at the end of the SFY.

Cash advances are allowed in some contracts as documented within the contract document.

Audit Objectives – Determine whether contractor:

- A. Followed the procedures established by the applicable sections of the contract with the NC Pre-Kindergarten Program.
- B. The contractor implemented procedures to assure that subcontractors conformed substantially to the same requirements that applied to the contractor.

Suggested Audit Procedures

- 1. Select a sample of monthly payment requests (FSR's) and trace payments requested to documentation showing that the services were received by eligible children.
- 2. Select a sample of administrative expenditures at the DCDEE Contractor level and trace to supporting documentation showing that the cost for materials or other expenses are supported by accounting reports.
- 3. If appropriate, ensure any advance has been reconciled and "zeroed out" in the accounting records.
- 4. If end of the year expenditures are reviewed; check and see if any unexpended Pre-K funds were remaining; if so, see that it was returned to the State.

4. ELIGIBILITY

Compliance Requirements – The specific requirements for eligibility are found in legislation and the Program Requirements and Guidance Manual. This requirement specifies the criteria for determining the individuals that can participate in the program and include:

Age Requirements

- 1. Children to be enrolled must be four years of age on or before **August 31st** in the year served.
- 2. Children age eligible for kindergarten cannot be served with NC Pre-K funds.

Priority Requirements

- 1. Children in families with annual incomes at or below 75% of the State Median Income (SMI) level are eligible for *NC Pre-K* services.
- 2. Any age-eligible child who is a child of either of the following shall be eligible for the program, without regard to income: 1) an active duty member of the Armed Forces of the United States, including the North Carolina National Guard, State military forces or a reserve component of the Armed Forces, who was ordered to active duty by the proper authority within the last 18 months or is expected to be ordered within the next 18 months or 2) a member of the Armed Forces of the United States, including the North Carolina National Guard, State military forces or a reserve component of the Armed Forces, who was injured and/or is receiving military disability retirement or was killed while serving on active duty.
- 3. NC Pre-K Programs are strongly encouraged to serve any age eligible child whose family is experiencing homelessness.

Other Eligibility Requirements:

In addition, up to 20% of age eligible children enrolled may have family incomes more than seventy-five (75%) of state medium income if the child has one of the risk factors identified below:

1. Identified development disability, as indicated by the child's Individual Education Program
2. Limited English Proficiency (LEP) as indicated by the family and/or child speaking limited or no English in the home;
3. Developmental/Educational Need as indicated by the child's performance results on a developmental screening or child's Individualized Education Program;
4. Chronic Health Condition as indicated by a health care provider diagnosis, e.g., asthma, sickle cell anemia, cancer, HIV;

Audit Objectives – Determine whether:

1. Required eligibility determinations were made, (including obtaining any required documentation/verifications) and that individual program participants were determined to be eligible. Acceptable documentation/verifications are as follows:
 - Date of Birth (birth certificate, medical records, or date recorded in family bible)
 - Proof of Income (pay stubs, tax records, signature, award letters from Social Security Administration, Employment Security Commission, employer statements, business and tax records for self-employment)
2. Payments were made for services provided to eligible participants only.
3. Payments were made in accordance with the program's fiscal requirements.

Suggested Audit Procedures

1. Review to determine if an eligibility determination system is in place.
2. Using a random sample, perform test to determine if eligibility criteria are being followed.
 - a. Specific individuals were eligible in accordance with the requirements of the program.
 - b. Payments made were in compliance with the requirements of the program.
 - c. Payments were discontinued when the period of eligibility expired.

6. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Compliance Requirements - This provision pertains to equipment purchased with *NC Pre-K* funds. Title to equipment costing in excess of \$500 acquired by the contractor with *NC Pre-K* funds shall vest with the Contractor subject to the following conditions:

1. The contractor shall use the equipment in the project or program for which it was acquired as long as needed. When equipment is no longer needed for the *NC Pre-K* Program, or if operations are discontinued, the contractor shall contact the DCDEE for written instructions regarding the disposition of equipment.
2. When acquiring replacement equipment, the contractor may use equipment purchased through the NC Pre-K Program as trade-in against replacement or may sell the equipment and use the proceeds to offset the costs of replacement equipment subject to approval of the DCDEE.
3. For equipment costing in excess of \$500, equipment controls and procedures should be maintained to adequately account for and identify the equipment in accordance with the contract.
4. The contractor shall ensure that all subcontractors are notified of their responsibility to comply with the equipment conditions as specified in the contract with the DCDEE.

Audit Objectives – Determine whether:

1. The contractor maintains proper records for equipment and adequately safeguards and maintains equipment.
2. Disposition of any equipment acquired with NC Pre-K funds is in accordance with the requirements of the awarding agency.

Suggested Audit Procedures

1. Obtain entity’s policies and procedures for equipment management and ascertain if they comply with the contracting agency’s policies and procedures.
2. Select a sample of equipment transactions and test for compliance with the contracting agency’s policies and procedures for management and disposition of equipment.
3. Dispositions of Equipment: Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were made in accordance with the contracting agency’s requirements.

7. MATCHING, LEVEL OF EFFORT, EARMARKING

Compliance Requirements

NC Pre-K funding may not supplant other funds. Generally, NC Pre-K funds may not replace other funds but may supplement other funds to serve more eligible at-risk 4-year-olds or to improve the level of service to comply with NC Pre-K requirements. The pool of non-NC Pre-K funds available to the county for pre-k educational activities (local, State, and/or federal) should not be replaced with NC Pre-K funds. Leveraging other funding sources is referenced in Section 5 of Governor Perdue’s Executive Order 100.

If a request is made to support existing 4-year-old classrooms with NC Pre-K funds when current funding is eliminated, reduced or redirected, a specific, detailed explanation is required and must be reviewed and approved by the State Office. This explanation must include the type of funds being eliminated, reduced or redirected.

Other resources accessed are to be reported to DCDEE. The expenditures shall:

1. Be verifiable from the contractor's records;
2. Be supplemental to and not supplant preexisting resources for related program activities unless current funding is no longer available due to other State or federal educational mandates;
3. Be incurred as a direct result of the NC Pre-K Program and be necessary and reasonable for the proper and efficient accomplishment of the Program's objectives;
4. Be reported to NC Pre-K Program, or the contractor by the subcontractor in the manner proscribed by the budget manual.

Contractors shall monitor and report qualifying expenses to ensure they have occurred and meet the requirements prescribed in this section.

Audit Objectives

1. Accessing Other Resources – Determine whether there are documented resources to the NC Pre-K Program and what these resources are. There is no minimum amount or percentage required.
2. Supplement Not Supplanting – Determine whether specified service or expenditure levels of other funding for the NC Pre-K program were maintained. If other funding levels were reduced, determine if the NC Pre-K funds were used to replace.

Suggested Audit Procedures

1. Accessing Other Resources
Review that there are documented other resources supporting the NC Pre-K Program.
2. Supplement Not Supplant
Verify that the NC Pre-K funds did supplement and not supplant the existing resources except when allowable by special provision.

8. PERIOD OF PERFORMANCE OF NC PRE-K FUNDS

Compliance Requirements – NC Pre-K contracts specify a time period during which the contractor may use the funds. Where a funding period is specified, a contractor may only charge costs resulting from expenses incurred during the funding period.

Audit Objective – Determine whether NC Pre-K funds were expended within the period of availability.

Suggested Audit Procedures

1. Review the Contract documents and regulations pertaining to the program and determine any contract-specific requirements related to the period of availability and document the availability period.
2. If any unexpended NC Pre-K funds remain at the end of the contract, determine that these funds were returned to DCDEE.

12. REPORTING

Compliance Requirements

Financial and Program Reporting

The specific requirements for contractor reporting are found in the provisions of the NC Pre-K contract; Program Requirements and Guidance Manual; and the Program Fiscal and Contract Manual. There are four reports that must be completed: The monitoring tool; the monthly Financial Status Report (including supporting attendance documentation); the Other Resources Certification Statement; and the Quarterly Start-up Report (if start-up funds are in the contract).

Audit Objective – Determine whether required reports for NC Pre-K contracts include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program and fiscal requirements.

Suggested Audit Procedures

1. Review applicable provisions of contracts for reporting requirements. Obtain and review instructions for completing the reports.
 - a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual). The NC Pre-K Program requires the cash basis.
 - b. For program reports, determine the criteria and methodology used in compiling and reporting the data is consistent with program requirements and accepted documentation.
2. Select a sample of report types.
 - a. Ascertain if the financial reports were prepared in accordance with the required accounting basis.
 - b. Determine if the financial reports were calculated properly and are documented appropriately. For the monthly Financial Status Report, documentation of direct services expenditures is the classroom attendance report. Ascertain that the reports were submitted when due.
 - c. Ascertain if the monitoring tool was completed and available for State office review.

13. SUBRECIPIENT MONITORING

Compliance Requirements

A contractor is responsible for:

1. Identifying to the subcontractor the monitoring requirements specified in the Program Requirements and Guidance Manual and the Program Fiscal and Contract Manual. These subcontracts are purchase of service which are not required to have line item budgets. The DCDEE contractor is responsible for monitoring the subcontractor for compliance with attendance, payment rate, and program requirements.
2. Monitoring the subcontractor activities to provide reasonable assurance that program requirements are met.
3. Requiring the subcontractor to take prompt corrective action on any findings discovered during the monitoring process.

Audit Objectives – Determine whether the contractor:

1. Identified monitoring requirements to the subcontractor.
2. Monitored subcontractor activities to provide reasonable assurance that the subcontractor administers contract in compliance with the Program Requirements and Guidance Manual and ensured that appropriate corrective action was taken on monitoring findings.

Specific program monitoring tools developed by the DCDEE or other similar locally developed tools should be used at the local level for self-review and verification of compliance with the operating regulations and standards.

Suggested Audit Procedures

1. Test contract to ascertain if the contractor made subcontractor aware of monitoring requirements specified in the Program Requirements and Guidance Manual.
2. Review the contractor's documentation of subcontractor monitoring to ascertain if that subcontractor provided services in compliance with NC Pre-K program guidelines and that appropriate corrective action was taken on any monitoring finding.

The contractor's process for monitoring is as follows:

- The local NC Pre-K Contract Administrator has on file an original copy of the completed site/classroom monitoring tool selected for use by each NC Pre-K site.
- Results from the tool utilized for sites and classrooms were used to complete the Contractor/Program tool selected for monitoring. Specific concerns for any site/classroom were recorded and attached to the monitoring tool.
- The tool utilized for Contractor/Program monitoring was made available for review during a scheduled monitoring/compliance visit conducted by the DCDEE.
- Additionally, the Contract Administrator made at least one annual site visit to each NC Pre-K program site/classroom during the program year. During the visit, the selected site/classroom monitoring was discussed and validated by the local Contract Administrator. For sites/classrooms that did not meet specific guidelines, plans to

ensure compliance were reviewed and monitored for completion, submitted to the contractor and made available at the child care facility for review by the child care consultant in the Division of Child Development and Early Education assigned to monitor the NC Pre-K program.

14. SPECIAL TESTS AND PROVISIONS

CONFLICT OF INTEREST AND CERTIFICATION OF NO OVERDUE TAX DEBTS

Compliance Requirements

Local Partnerships and other non-governmental entities are required within their contracts to formally adopt a policy which addresses conflicts of interest that might arise involving the entity's management, employees, and/or board members. The policy statement is expected to address situations in which any of the above referenced individuals may directly or indirectly benefit from the entity's disbursement of funds received from the State. In addition, the policy should specify actions to be taken by the entity or individuals or both to avoid either actual conflicts of interest or the appearance of an impropriety. Before a private, not-for-profit entity receives and disburses State funds, the entity should have adopted and have on file a copy of the policy statement.

Audit Objective – Before receiving and disbursing State funds, determine whether the grantee has adopted and has on file a conflict of interest policy and that the grantee was in compliance with the policy.

Suggested Audit Procedures

1. Ascertain that the grantee has a conflict of interest policy in accordance with its contract with the local partnership.
2. Check the policy and verify through board minutes that a policy was adopted before the grantee received and disbursed State funds. Also, from review of board activities, determine that grantee is in compliance with this policy.